FASB EXPOSURE DRAFT

Proposed Accounting Standards Update

Issued: June 17, 2026
Comments Due: August 17, 2026

Derivatives and Hedging (Topic 815)

Targeted Improvements to Accounting for Interest Rate Risk Hedging and Net Investment Hedging

The Board issued this Exposure Draft to solicit public comment on proposed changes to Topic 815 of the *FASB Accounting Standards Codification*®. Individuals can submit comments in one of three ways: using the electronic feedback form on the FASB website, emailing comments to director@fasb.org, or sending a letter to "Technical Director, File Reference No. 2026-ED200, FASB, 801 Main Avenue, PO Box 5116, Norwalk, CT 06856-5116."

Financial Accounting Standards Board

Notice to Recipients of This Exposure Draft of a Proposed Accounting Standards Update

The Board invites comments on all matters in this Exposure Draft until August 17, 2026. Interested parties may submit comments in one of three ways:

- Using the electronic feedback form available on the FASB website at Exposure Documents Open for Comment
- Emailing comments to director@fasb.org, File Reference No. 2026-ED200
- Sending a letter to "Technical Director, File Reference No. 2026-ED200, FASB, 801 Main Avenue, PO Box 5116, Norwalk, CT 06856-5116."

All comments received are part of the FASB's public file and are available at www.fasb.org.

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. A copy of this Exposure Draft is available at www.fasb.org.

FASB FINANCIAL ACCOUNTING STANDARDS BOARD®

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Targeted Improvements to Accounting for Interest Rate Risk Hedging and Net Investment Hedging

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Summary and Questions for Respondents

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

The Board is issuing this proposed Update to address three discrete hedge accounting issues that have been identified by stakeholders. Each of the three issues relates to exceptions or limitations in the general hedge accounting model that restrict its application. The Board intends to broaden the application of hedge accounting by removing these exceptions and limitations.

In response to the 2025 Invitation to Comment, *Agenda Consultation* (2025 ITC), stakeholders provided feedback indicating that although the Board's efforts to simplify hedge accounting over the last several years have been helpful in aligning financial reporting with the underlying economics of entities' risk management strategies, challenges remain in applying hedge accounting. In particular, stakeholders emphasized three key aspects of hedge accounting guidance that could be improved with limited amendments to better reflect the economics of their risk management activities. Stakeholders also noted that some of these exceptions and limitations can constrain an entity's risk management activities.

To address stakeholders' concerns and align with the objectives of the Board's recently completed hedging projects, in particular Accounting Standards Update No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities,* and Accounting Standards Update No. 2025-09*, Derivatives and Hedging (Topic 815): Hedge Accounting Improvements,* the amendments in this proposed Update are intended to better reflect the economics of an entity's risk management activities in its financial statements. The proposed amendments also are intended to enhance the operability of hedge accounting.

Who Would Be Affected by the Amendments in This Proposed Update?

Application of the hedge accounting guidance is optional. The amendments in this proposed Update would apply to any entity that elects to apply hedge accounting in accordance with Topic 815.

What Are the Main Provisions, How Would the Main Provisions Differ from Current Generally Accepted Accounting Principles (GAAP), and Why Would They Be an Improvement?

Issue 1: Hedging Interest Rate Risk for Held-to-Maturity (HTM) Debt Securities

The amendments in this proposed Update would permit an entity to hedge interest rate risk for HTM debt securities in fair value hedges and cash flow hedges. Under current GAAP, entities cannot designate the interest rate risk of HTM debt securities as the hedged risk. The proposed amendments would improve GAAP by enabling entities to more closely align hedge accounting with the economics of their risk management activities. As a result, entities would be able to more consistently reflect their risk management strategies in the financial information provided to investors. The proposed amendments also would more closely align the application of hedge accounting to HTM debt securities with the application of hedge accounting to held-for-investment loans and with guidance in International Financial Reporting Standards (IFRS) Accounting Standards.

Issue 2: Amendments to the Definition of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap Rate

The amendments in this proposed Update would amend the definition of the SOFR Overnight Index Swap Rate in current GAAP so that the overnight index swap rate would no longer be the only SOFR-based rate included as a U.S. benchmark interest rate under Topic 815, thereby permitting designation of any tenor of SOFR.

The amendments in this proposed Update would improve GAAP by more closely aligning hedge accounting with the economics of entities' risk management activities. The proposed amendments also would more closely align SOFR with the other rates included in the benchmark interest rate list that are not constrained to a particular tenor. Furthermore, the proposed amendments would better reflect market developments such as the increased use of Term SOFR. The proposed amendments would benefit entities that apply cash flow hedge accounting to (a) forecasted purchases or sales of fixed-rate debt instruments by expanding the eligible rates to be designated and (b) forecasted issuances when entities have not yet determined whether they will issue fixed-rate or floating-rate debt by limiting the occurrence of missed forecasts. In addition, the proposed amendments would benefit entities that apply fair value hedge accounting to fixed-rate debt instruments by reducing the complexity of hedge effectiveness assessments.

Issue 3: Permitting Float-to-Float Cross-Currency Swaps with Different Reset Dates to Be Hedging Instruments in Net Investment Hedges

The amendments in this proposed Update would expand the population of eligible net investment hedging instruments by permitting the use of certain float-to-float cross-currency swaps with different reset dates. The proposed amendments would eliminate the requirement that both legs of a float-to-float cross-currency swap have the same repricing intervals and dates and, instead, would require that the repricing intervals and dates occur every six months or more frequently, which is considered sufficient to justify an assumption that the variable payment or receipt is at a market rate. In addition, the proposed amendments would update hedge effectiveness guidance to align the terms of the hypothetical swap with the actual cross-currency interest rate swap as modified by the proposed amendments related to repricing intervals and dates.

For those net investment hedges, the amendments in this proposed Update would improve the financial reporting of effective hedging relationships and better reflect the economic results of an entity's risk management activities in its financial statements. The proposed amendments also would align GAAP with the market conventions that have developed following the cessation of the London Interbank Offered Rate (LIBOR).

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

The effective date for the amendments in this proposed Update will be determined after the Board considers stakeholder feedback on the proposed amendments.

The amendments in this proposed Update would require that an entity apply the guidance on a prospective basis as of the date of adoption. Early adoption would be permitted for all entities on any date on or after issuance of a final Update.

Questions for Respondents

Hedging Interest Rate Risk for HTM Debt Securities

Question 1: Do the amendments in this proposed Update improve the guidance on hedge accounting for interest rate risk by permitting interest rate risk to be the hedged risk for HTM debt securities? Are the proposed amendments clear, operable, and auditable? Please explain why or why not. If not, what changes would you suggest?

Amendments to the Definition of the SOFR Overnight Index Swap Rate

Question 2: Do the proposed amendments improve the guidance on hedge accounting for interest rate risk by permitting any tenor of SOFR to be considered a benchmark interest rate? Are the proposed amendments clear and operable? Please explain why or why not. If not, what changes would you suggest?

Permitting Float-to-Float Cross-Currency Swaps with Different Reset Dates to Be Hedging Instruments in Net Investment Hedges

Question 3: Do the proposed amendments improve the guidance on net investment hedges? Are the proposed amendments clear and operable? Do you agree that the period between repricing intervals and dates should occur every six months or more frequently? Please explain why or why not. If not, what changes would you suggest?

Transition

Question 4: Are the proposed transition requirements operable? If not, why not, and what transition method would be more appropriate and why? Would the proposed transition disclosures provide decision-useful information? Please explain why or why not.

Effective Date

Question 5: In evaluating the effective date, how much time would be needed to implement the proposed amendments? Should the effective date for entities other than public business entities be different from the effective date for public business entities? Please explain why or why not. If the effective dates should be different, how much additional time would entities other than public business entities need to implement the proposed amendments?

Benefits and Costs

Question 6: Would the expected benefits of the proposed amendments justify the expected costs? If not, please describe the nature and magnitude of those costs, differentiating between one-time costs and recurring costs.

Amendments to the *FASB Accounting Standards Codification®*

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–7. 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~~.

Issue 1: Hedging Interest Rate Risk for Held-to-Maturity Debt Securities

Amendments to Subtopic 815-20

2. Amend paragraphs 815-20-25-12(d), 815-20-25-15(f), and 815-20-25-43(c) through (d), with a link to transition paragraph 815-20-65-8, as follows:

Derivatives and Hedging—Hedging—General

Recognition

> Eligibility of Hedged Items and Transactions

• > Hedged Item Criteria Applicable to Fair Value Hedges Only

815-20-25-12 An asset or a liability is eligible for designation as a hedged item in a fair value hedge if all of the following additional criteria are met:

d. If the hedged item is all or a portion of a debt security (or a portfolio of similar debt securities) that is classified as held to maturity in accordance with Topic 320, the designated risk being hedged is the risk of changes in its fair value attributable to <u>any one or more of the following risks:</u>
   <u>1. **Credit risk**</u> ~~**credit risk**,~~
   <u>2. Foreign</u> ~~foreign~~ exchange <u>risk</u> ~~risk,~~
   <u>3. Interest rate risk</u> ~~or both~~.

If the hedged item is an option component of a held-to-maturity security that permits its prepayment, the designated risk being hedged is the risk of changes in the entire fair value of that option component. If the hedged item is other than an option component of a held-to-maturity security that permits its prepayment, the designated hedged risk also shall not be the risk of changes in its overall fair value.

• > Hedged Transaction Criteria Applicable to Cash Flow Hedges Only

815-20-25-15 A forecasted transaction is eligible for designation as a hedged transaction in a cash flow hedge if all of the following additional criteria are met:

f. If the variable cash flows of the forecasted transaction relate to a debt security that is classified as held to maturity under Topic 320, the risk being hedged is the risk of changes in its cash flows attributable to any one or more of the following risks:
   1. Credit risk
   2. Foreign exchange risk ~~risk.~~
   3. Interest rate risk.

• > Items Specifically Ineligible for Designation as a Hedged Item or Transaction

815-20-25-43 Besides those hedged items and transactions that fail to meet the specified eligibility criteria, none of the following shall be designated as a hedged item or transaction in the respective hedges:

c. With respect to fair value hedges only:
   1. If the entire asset or liability is an instrument with variable cash flows, an implicit fixed-to-variable swap (or similar instrument) perceived to be embedded in a host contract with fixed cash flows
   2. Subparagraph superseded by Accounting Standards Update No. 202X-XX.~~For a held-to-maturity debt security, the risk of changes in its fair value attributable to interest rate risk~~
   3. An asset or liability that is remeasured with the changes in fair value attributable to the hedged risk reported currently in earnings
   4. An equity investment in a consolidated subsidiary
   5. A firm commitment either to enter into a business combination or to acquire or dispose of a subsidiary, a noncontrolling interest, or an equity method investee
   6. An equity instrument issued by the entity and classified in stockholders' equity in the statement of financial position

7. A component of an embedded derivative in a hybrid instrument—for example, embedded options in a **hybrid instrument** that are required to be considered a single forward contract under paragraph 815-10-25-10 cannot be designated as items hedged individually in a fair value hedge in which the hedging instrument is a separate, unrelated freestanding option.

d. Subparagraph superseded by Accounting Standards Update No. 202X-XX.~~With respect to cash flow hedges only:~~
   1. Subparagraph not used.
   2. Subparagraph superseded by Accounting Standards Update No. 202X-XX.~~If variable cash flows of the forecasted transaction relate to a debt security that is classified as held-to-maturity under Topic 320, the risk of changes in its cash flows attributable to interest rate risk~~
   3. Subparagraph superseded by Accounting Standards Update No. 2017-12.

Issue 2: Amendments to the Definition of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap Rate

Amendments to Master Glossary

3. Amend the Master Glossary term *Secured Overnight Financing Rate (SOFR) Overnight Index Swap Rate*, with a link to transition paragraph 815-20-65-8, as follows:

Secured Overnight Financing Rate (SOFR) ~~Overnight Index~~ Swap Rate

The fixed rate on a U.S. dollar, constant-notional interest rate swap that has its variable-rate leg referenced to a rate based on the Secured Overnight Financing Rate (SOFR)~~(an overnight rate)~~ with no additional spread over SOFR on that variable-rate leg. That fixed rate is the derived rate that would result in the swap having a zero fair value at inception because the present value of fixed cash flows, based on that rate, equates to the present value of the variable cash flows.

Amendments to Subtopic 815-20

4. Amend paragraph 815-20-25-6A, with a link to transition paragraph 815-20-65-8, as follows:

Derivatives and Hedging—Hedging—General

Recognition

> Eligibility of Hedged Items and Transactions

• > Hedged Item and Transaction Criteria Applicable to both Fair Value Hedges and Cash Flow Hedges

• • > Hedged Items Involving Interest Rate Risk

• • • > Benchmark Interest Rate

815-20-25-6A In the United States, the interest rates on direct Treasury obligations of the U.S. government, the **London Interbank Offered Rate (LIBOR) swap rate**, the **Fed Funds Effective Rate Overnight Index Swap Rate**, the **Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Rate**, and the **Secured Overnight Financing Rate (SOFR)** ~~**Overnight Index**~~ **Swap Rate** are considered to be benchmark interest rates. In each financial market, generally only the most widely used and quoted rates may be considered benchmark interest rates.

Issue 3: Permitting Float-to-Float Cross-Currency Swaps with Different Reset Dates to Be Hedging Instruments in Net Investment Hedges

Amendments to Subtopic 815-20

5. Amend paragraph 815-20-25-67, with a link to transition paragraph 815-20-65-8, as follows:

Derivatives and Hedging—Hedging—General

Recognition

> Eligibility of Hedging Instruments

• > Hedging Instruments in Hedges of Foreign Exchange Risk

• • > Hedging Instruments in Net Investment Hedges

815-20-25-67 Hedging instruments that are eligible for designation in a net investment hedge include, among others, both of the following:

a. A receive-variable-rate, pay-variable-rate cross-currency interest rate swap, provided both of the following conditions are met:
   1. The interest rates are based on the same currencies contained in the swap.
   2. The intervals between repricing of each leg of the swap occur every six months or more frequently ~~Both legs of the swap have the same repricing intervals and dates~~.

b. A receive-fixed-rate, pay-fixed-rate cross-currency interest rate swap. A cross-currency interest rate swap that has two fixed legs is not a compound derivative instrument and, therefore, is not subject to the criteria in (a).

Amendments to Subtopic 815-35

6. Amend paragraph 815-35-35-20, with a link to transition paragraph 815-20-65-8, as follows:

Derivatives and Hedging—Net Investment Hedges

Subsequent Measurement

> Assessing Hedge Effectiveness and Measuring Hedge Results

• > Method Based on Changes in Spot Exchange Rates

• • > Assessment of Effectiveness

815-35-35-20 If a receive-variable-rate, pay-variable-rate cross-currency interest rate swap is designated as the hedging instrument in a net investment hedge, hedge effectiveness shall be assessed by comparing the following two values:

a. The change in fair value of the actual cross-currency interest rate swap designated as the hedging instrument
b. The change in fair value of a hypothetical receive-variable-rate, pay-variable-rate cross-currency interest rate swap in which the interest rates are based on the same currencies contained in the hypothetical swap and both legs of the hypothetical swap have the same repricing intervals and dates as the actual cross-currency interest rate swap designated as the net investment hedge. The hypothetical derivative instrument also shall have a maturity that matches the maturity of the actual cross-currency interest rate swap designated as the net investment hedge.

Amendments to Subtopic 815-20

7. Add paragraph 815-20-65-8 and its related heading as follows:

Derivatives and Hedging—Hedging—General

Transition and Open Effective Date Information

> Transition Related to Accounting Standards Update No. 202X-XX, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Interest Rate Risk Hedging and Net Investment Hedging*

815-20-65-8 The following represents the transition and effective date information related to Accounting Standards Update No. 202X-XX, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Interest Rate Risk Hedging and Net Investment Hedging*:

Effective date and early adoption

a. All entities shall apply the pending content that links to this paragraph for annual reporting periods beginning after [date to be inserted after exposure], including interim reporting periods within those annual reporting periods.
b. Early adoption of the pending content that links to this paragraph is permitted for all entities on any date on or after [date to be inserted after exposure].

Transition method

c. An entity shall apply the pending content that links to this paragraph on a prospective basis beginning on or after the date of adoption.

Transition disclosures

d. An entity shall disclose the nature of and reason for the change in accounting principle, as well as the method of applying the change, in both the interim reporting period and the annual reporting period that the entity adopts the pending content that links to this paragraph.

The amendments in this proposed Update were approved for publication by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Richard R. Jones, *Chair*
Hillary H. Salo, *Vice Chair*
Christine A. Botosan
Frederick L. Cannon
Susan M. Cosper
Marsha L. Hunt
Dr. Joyce T. Joseph

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Board’s considerations in reaching the conclusions in this proposed 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. In response to the 2025 ITC, stakeholders acknowledged that the Board’s recent efforts to simplify hedge accounting better align the accounting with entities’ risk management strategies, while noting that certain aspects of the guidance continue to present challenges. Stakeholders emphasized three discrete issues that could be addressed through limited, targeted amendments to Topic 815 and that would provide preparers and investors with meaningful benefits by better reflecting the economics of risk management activities. The Board decided to address those three issues in this proposed Update because they are narrow and uniquely targeted compared with other hedge accounting issues raised in the 2025 ITC, which are more complex and would require additional consideration and more extensive amendments or exceptions to the hedge accounting model.

BC3. The Board also determined that there is a low risk that the amendments made as part of this project would contradict the rationale for future standard setting on hedge accounting. The Board decided that making these amendments would be a practical, incremental approach to provide timely relief in areas in which that relief is achievable while the Board continues to work on the other stages that require more time and research. Each of the three issues relates to exceptions or limitations in the general hedge accounting model that restrict its application. This project would remove those exceptions or limitations, thereby permitting broader application of the general hedge accounting model.

BC4. Accordingly, based on stakeholders' feedback, the Board decided to address the following issues in this proposed Update:

a. Hedging interest rate risk for held-to-maturity (HTM) debt securities
b. Removing the overnight index swap (OIS) parameter from the existing SOFR benchmark rate
c. Permitting float-to-float cross-currency swaps with different reset dates to be hedging instruments in net investment hedges.

Benefits and Costs

BC5. The objective of financial reporting is to provide information that is useful to both 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 benefits and costs 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.

BC6. An objective of the amendments in Update 2017-12 and Update 2025-09 was to improve the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. For those Updates, the Board agreed that the amendments would provide investors and other financial statement users with better and more decision-useful financial information. The amendments in this proposed Update seek to further that objective by removing exceptions or limitations within the general hedge accounting model, enhancing its overall operability, and permitting more prudent risk management activities.

BC7. Because hedge accounting is optional, not all entities will bear the costs of implementing the amendments in this proposed Update. For entities that elect to apply hedge accounting, the Board anticipates that they will not incur significant costs as a result of the proposed amendments. However, the Board acknowledges that certain reporting entities will incur costs. Those costs may include costs to introduce new or amend existing processes and internal controls to implement new hedge accounting strategies and to educate employees. Those costs should be limited because entities would be applying the current hedge accounting model, only across a broader population of relationships, and should largely be able to leverage existing systems and processes. The elective nature of hedge accounting permits entities to independently determine whether the expected benefits of applying the proposed amendments justify the expected costs.

BC8. Overall, the Board decided that the expected benefits of the amendments in this proposed Update would justify the expected costs. The basis for conclusions related to each proposed amendment provides the relevant benefit-cost analysis for that issue.

Basis for Conclusions

Issue 1: Hedging Interest Rate Risk for HTM Debt Securities

BC9. The amendments in this proposed Update would permit an entity to designate the changes in fair value or cash flows of a HTM debt security attributable to interest rate risk as the hedged risk.

BC10. Current GAAP prohibits the application of hedge accounting to hedges of interest rate risk for HTM debt securities, a prohibition that has existed since the hedge accounting guidance was established by FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, in 1998. At that time, the Board stated that a conflict would exist between the guidance on the classification of debt securities as HTM and the interest rate risk hedge accounting guidance if an entity was able to apply hedge accounting to an HTM debt security. In current GAAP, Topic 320 requires that to classify an individual debt security as HTM, an entity must assert that it has the positive intent and ability to hold that individual debt security to maturity regardless of changes in the interest rate risk environment. To make that assertion, an entity must theoretically be indifferent to changes in the security's fair value (if the security is fixed rate) or cash flows (if the security is floating rate) attributable to interest rate risk and the security's prepayment risk; therefore, the Board concluded at that time that applying hedge accounting to HTM debt securities would be inconsistent with that classification.

BC11. However, the Board recognizes that entities are exposed to interest rate risk on those debt securities, regardless of their accounting classification. Stakeholders, including financial institutions, have consistently noted that the prohibition on applying hedge accounting to HTM debt securities is inconsistent with financial institutions' interest rate risk management. Stakeholders indicated that interest rate risk is dynamically managed by financial institutions on an overall balance sheet basis, not on an individual security basis. Prohibiting HTM debt securities from eligibility as hedged items limits an entity's ability to apply hedge accounting to achieve its desired interest rate risk positioning. In addition, the Board observed that hedging the interest rate risk of HTM debt securities as part of an entity's overall interest rate risk management strategy does not contradict the entity's ability to assert its intent and ability to hold an individual debt security to maturity upon purchase.

BC12. Paragraph 815-20-25-12(c) states that the hedged item in a fair value hedge must present an exposure to changes in fair value attributable to the hedged risk that could affect reported earnings. The Board observed that current GAAP permits sales of HTM debt securities in limited circumstances. Accordingly, HTM debt securities present exposure to changes in fair value attributable to interest rate risk that could affect reported earnings and, therefore, meet this criterion.

BC13. The Board observed that while a financial institution can enter into derivatives to economically convert its interest rate risk exposure (that is, without applying hedge accounting), net interest margin is a critical focus for financial institution investors. As a result, achieving hedge accounting (and thereby reflecting the converted interest rate profile achieved through derivatives in net interest margin) is an important factor for management to accurately present its financial results. The Board also observed that the prohibition may be viewed as an impediment to prudent risk management activities (if an entity chooses to limit its hedging activities because interest rate risk of HTM debt securities cannot be designated as hedged for accounting purposes). The Board decided that the amendments in this proposed Update would result in financial reporting that more accurately reflects the economics of an entity's risk management activities if the entity enters into derivatives as an economic hedge. The Board determined that an accounting construct should not be an impediment to entities applying prudent risk management activities or accurately presenting the economics of an entity's risk management activities. Consequently, the Board believes that the proposed amendments could result in more prudent risk management activities.

BC14. The Board decided that permitting hedging of interest rate risk for HTM debt securities would provide better financial reporting information because it would (a) more closely align hedge accounting with the economics of an entity's risk management activities, particularly for financial institutions that manage interest rate exposure on an entity-wide basis, (b) more accurately reflect net interest margin for financial institutions that economically hedge HTM debt securities, and (c) provide more transparent information because additional disclosures are required for derivatives that qualify for hedge accounting compared with derivatives that do not qualify for hedge accounting. In addition, the Board observed that the amendments in this proposed Update would more closely align with IFRS Accounting Standards and with the accounting for other similar assets, such as held-for-investment loans. The Board indicated that the objective of the proposed amendments is to incrementally add interest rate risk to credit risk and foreign exchange risk as a permitted hedged risk for HTM debt securities rather than to broadly reevaluate hedge accounting for those securities.

BC15. The Board decided that the potential benefits of allowing entities to apply hedge accounting to hedges of interest rate risk for HTM debt securities would justify the potential costs. The amendments in this proposed Update would expand the population of economic hedging strategies that are able to qualify for hedge accounting, thereby allowing a greater number of entities to better reflect the economics of their risk management activities in their financial statements. The Board does not anticipate significant implementation costs related to education or establishing accounting policies for this issue because entities would be applying the current hedge accounting model to a broader set of eligible risks.

Issue 2: Amendments to the Definition of the SOFR Overnight Index Swap Rate

BC16. The amendments in this proposed Update would amend the definition of the term *SOFR Overnight Index Swap Rate* so that SOFR rates of any tenor would qualify as benchmark interest rates in the United States.

BC17. For fair value hedges of interest rate risk, only a benchmark interest rate can be designated as the hedged risk. Current GAAP specifies the list of eligible benchmark interest rates in the United States. Only the SOFR OIS rate is eligible to be designated as the hedged risk under current GAAP because the SOFR rate included on the list of benchmark interest rates is limited to the overnight tenor.

BC18. For most cash flow hedges of interest rate risk, any rate contractually specified in a variable-rate instrument is permitted to be designated as the hedged risk. Accordingly, SOFR rates of any tenor (not limited to the OIS rate) are currently allowed to be designated as the hedged risk in many cash flow hedges. However, in cash flow hedges of the forecasted issuance or purchase of fixed-rate debt, an entity must designate an eligible benchmark interest rate required for fair value hedges (discussed in paragraph BC17). In addition, for cash flow hedges in which an entity has not yet determined whether it will issue fixed-rate or floating-rate debt, an entity must designate a benchmark interest rate as the hedged risk. Therefore, if an entity designated SOFR OIS as the hedged risk because it is on the current benchmark interest rate list but ultimately issued Term SOFR floating-rate debt, it may be required to recognize a missed forecast.

BC19. The amendments in Accounting Standards Update No. 2018-16, *Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes,* permitted the SOFR OIS rate to be considered as a benchmark interest rate. The amendments also added the term *SOFR Overnight Index Swap Rate* (the SOFR Swap Rate) to the Master Glossary. At the time those amendments were issued, the overnight rate was the only SOFR tenor available.

BC20. At the time that Update 2018-16 was issued, the Board observed that it was prudent to define the SOFR Swap Rate in a narrow manner. As stated in paragraph BC18 of Update 2018-16, the Board excluded a swap rate based on a SOFR term rate because of the uncertainty about the term rate’s future development and the lack of any derivative or cash instruments indexed to a SOFR term rate.

BC21. Since that time, the Board has monitored the development of SOFR and concluded that the concerns described in the basis for conclusions of Update 2018-16 have been addressed. Other SOFR-based rates, including Term SOFR, are widely quoted, widely used, and commonly referenced in financing transactions. Although the Term SOFR rate is derived from transactions in the derivatives market, those derivatives reference the overnight SOFR rate, thereby maintaining a connection to the credit quality and depth of the U.S. Treasury repurchase agreement market, unlike the previous construct of LIBOR. In addition, the Alternative Reference Rates Committee has endorsed the use of Term SOFR subject to its best-practice recommendations. In its Closing Report released at the end of 2023, the Alternative Reference Rates Committee reiterated that those recommendations are intended to be permanent and announced the conclusion of the group following the transition. Accordingly, the Board decided that removing the OIS parameter from the SOFR benchmark interest rate definition would result in a more neutral and relevant standard.

BC22. In addition, the Board decided that removing the OIS parameter would better align SOFR with other rates included in the benchmark interest rate list. Expanding the population of SOFR-based rates eligible to be designated as benchmark interest rates by not specifying a particular tenor would better align hedge accounting with entities' risk management activities, more faithfully portray the economic results of those activities, limit the occurrence of missed forecasts when an entity issues floating-rate debt indexed to Term SOFR, and reduce complexity in initial designation and subsequent effectiveness assessments.

BC23. The Board decided that the potential benefits related to removing the OIS parameter would justify the potential costs. The amendments would expand the population of economic hedging strategies that would qualify for hedge accounting, thereby allowing entities to better reflect the economics of their risk management activities in their financial statements and simplifying hedge effectiveness testing. Because entities would apply the current hedge accounting model to a broader set of eligible rates, the Board does not foresee significant implementation costs related to education or establishing accounting policies for this issue.

Issue 3: Permitting Float-to-Float Cross-Currency Swaps with Different Reset Dates to be Hedging Instruments in Net Investment Hedges

BC24. The amendments in this proposed Update would allow certain cross-currency interest rate swaps with different reset dates to be designated as hedging instruments in net investment hedges and would update the methodology for measuring hedge effectiveness of those hedges.

BC25. Current GAAP requires that a compound derivative instrument that has multiple underlyings, such as one based on foreign exchange risk and one or more based on other risks (for example, the price of gold or the price of an S&P 500 contract), generally not be designated as a hedging instrument in a net investment hedge, with certain exceptions granted for cross-currency interest rate swaps. Specifically, for receive-variable-rate and pay-variable-rate (float-to-float) cross-currency interest rate swaps to be eligible for designation as hedging instruments in net investment hedges, they must meet the requirement in current GAAP that both legs of the swap have the same repricing intervals and dates.

BC26. During the transition away from interbank offered rates (IBORs), certain replacement rates for various IBORs (including LIBOR) differed temporarily in their terms and conditions, including repricing intervals and dates, such that one of the conditions for a float-to-float cross-currency swap to qualify as a hedging instrument in a net investment hedge was no longer met. As part of its efforts to facilitate the reference rate reform transition, the Board provided temporary relief in Topic 848, Reference Rate Reform, including relief to permit temporary misalignments in reset dates. That temporary relief expired upon the sunset of Topic 848 on December 31, 2024.

BC27. The Board observed that financial markets have largely completed the transition away from IBORs and that replacement interest rate conventions have been established such that no standard repricing intervals and dates exist across all jurisdictions, unlike the environment that existed before LIBOR cessation. Consequently, the requirements in current GAAP present challenges in achieving hedge accounting even when a net investment hedge is effective. In the recently completed hedging improvements project, which resulted in the issuance of Update 2025-09, the Board addressed other areas of guidance that were less operable or inoperable after reference rate reform, including the shared risk assessment and the net written option test. The Board indicated that addressing this issue in a timely manner is consistent with the rationale underlying those amendments.

BC28. Although float-to-float cross-currency swaps with different reset dates incorporate some degree of interest rate risk, the Board decided that float-to-float cross-currency swaps with different reset dates should be eligible to be hedging instruments in net investment hedges if the repricing intervals and dates occur every six months or more frequently. The Board determined that a reset at least every six months is frequent enough to justify the assumption that the variable payments or receipts are at market rates. The amendments in this proposed Update leverage a similar concept used in the shortcut method, which has been applied in practice without significant difficulty. Accordingly, the Board does not expect significant operational complexity in applying the proposed amendments. The Board decided that this approach would provide a clear and operable framework to permit these instruments to be designated as hedging instruments in a net investment hedge while limiting exposure to interest rate risk and reflecting current market conventions. Although some interest rate exposure would remain, that exposure would be limited to a short period that is already considered not significant when applying the shortcut method.

BC29. The Board considered, but rejected, an alternative that would have applied a quantitative threshold such as a *substantially all* or *predominance* criterion. Although that approach also would have allowed instruments with some interest rate risk exposure to be hedging instruments in net investment hedges, the Board observed that entities would be required to perform a quantitative calculation to demonstrate that changes in fair value were primarily driven by changes in foreign exchange rates. The Board also observed that the application of such thresholds in other areas of GAAP has presented significant challenges in the past. Accordingly, the Board rejected this alternative because it would have been more costly, required greater judgment, and introduced additional complexity compared with the alternative supported by the Board.

BC30. The Board also considered, but rejected, an alternative that would have removed the requirement related to repricing intervals and dates by concluding that those terms are not critical. The Board decided against this approach because it would have removed necessary guardrails and could have permitted hedging instruments with significant interest rate risk exposure to be designated in a net investment hedge, such as a swap in which one leg resets quarterly while the other leg resets only once before maturity. Accordingly, the Board rejected this alternative because it would not have appropriately limited interest rate risk exposure and would have been inconsistent with the overall objective of a net investment hedge.

BC31. The Board determined that the expected benefits of permitting float-to-float cross-currency swaps with different reset dates to qualify as hedging instruments in net investment hedges would justify the expected costs. The amendments in this proposed Update would update existing guidance to reflect market developments arising from reference rate reform and would expand the population of economic hedging strategies that qualify for hedge accounting, thereby allowing entities to better reflect the economics of their risk management activities in their financial statements. The Board does not anticipate significant implementation costs related to education or establishing accounting policies because the proposed amendments are similar to the temporary relief previously provided in Topic 848 and do not require significant judgment.

Effective Date and Transition

BC32. The Board will determine the effective date of this proposed Update after considering stakeholder feedback. The Board decided to permit early adoption for all entities on any date after issuance of a final Update because it expects that some stakeholders may want to adopt the guidance before the mandatory effective date.

BC33. The Board decided that entities electing to apply the affected hedge accounting guidance would be required to apply the amendments in this proposed Update on a prospective basis for all applicable hedging relationships. The Board considered whether a retrospective or modified retrospective transition approach would be appropriate for any of the three issues in this proposed Update.

BC34. The Board determined that for the proposed amendments in Issue 1 and Issue 3, a modified retrospective or retrospective transition approach would not be feasible because those amendments contemplate hedge accounting relationships that would not exist before issuance of a final Update.

BC35. The Board observed that the proposed amendments in Issue 2 could affect fair value hedges existing at the date of adoption in which SOFR OIS is designated as the hedged risk. Those hedges could benefit from simplified effectiveness testing. In addition, hedges of forecasted debt issuances or purchases of debt existing at the date of adoption in which it is uncertain whether an entity will issue fixed-rate or variable-rate debt could benefit from the flexibility to designate Term SOFR as the benchmark rate. However, the Board decided that the potential benefits from applying a modified retrospective or retrospective transition would not justify the costs and complexity of those approaches. In addition, this decision is consistent with the transition approach applied for prior changes to reference rates that can be designated in a hedge of interest rate risk that received broad stakeholder support, as reflected in comment letter feedback on the proposed Accounting Standards Update, *Reference Rate Reform (Topic 848) and Derivatives and Hedging (Topic 815): Deferral of the Sunset Date of Topic 848 and Amendments to the Definition of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap Rate,* in 2022.

BC36. With respect to transition disclosures, the Board considered the disclosure requirements in Topic 250, Accounting Changes and Error Corrections. Given a prospective transition approach, the Board decided to limit the proposed transition disclosures to the nature of and reason for the change in accounting principle and the method of applying the change. The Board also decided that an entity that issues interim financial statements must provide those disclosures in the financial statements of both the interim reporting period of the change and the annual reporting period of the change.

Amendments to the GAAP Taxonomy

The provisions of this Exposure Draft, if finalized as proposed, would require improvements to the GAAP Financial Reporting Taxonomy and SEC Reporting Taxonomy (collectively referred to as the "GAAP Taxonomy"). We welcome comments on these proposed improvements to the GAAP Taxonomy at xbrled@fasb.org. After the FASB has completed its deliberations and issued a final Accounting Standards Update, the proposed improvements to the GAAP Taxonomy will be finalized as part of the annual release process.