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At a glance

Early adoption of new hedge accounting guidance (expected in the third quarter) will be permitted upon issuance. Companies should consider whether early adoption would be feasible and beneficial.

FASB to permit adoption of new hedging guidance at issuance, expected in Q3

What happened?

On June 7, the FASB decided to permit early adoption of its forthcoming hedge accounting guidance upon issuance, which is expected to be in the third quarter of 2017. Although much of the standard will be elective, there are certain required elements and others that, although elective, will afford companies transition benefits if applied upon adoption. In addition, the Board voted to:

- Extend the guidance that permits companies to amortize excluded components in hedging relationships to hedges of net investments
- Permit a transition election to reclassify certain securities from held-to-maturity to available-for-sale if a portion of those securities would qualify to be hedged under the new “last of layer” approach
- Permit not-for-profit entities that are not public business entities to delay documentation of their methodology to assess hedge effectiveness and effectiveness testing until their financial statements are available to be issued

The Board also decided on certain transition provisions and discussed additions to the disclosure requirements.

Why is this important?

The FASB’s new guidance will impact all areas of hedge accounting, including financial and nonfinancial hedges, the timing of documentation, effectiveness testing, and presentation and disclosure. It is intended to more closely align hedge accounting with companies’ risk management efforts and simplify the administration of hedge accounting.

The new guidance will make more risk management strategies eligible for hedge accounting. As a result, all companies (even those that do not currently apply hedge accounting) should evaluate the benefit of applying the new guidance.

What's next?

The standard will be effective for calendar-year-end public companies in January 2019. All others have an additional year to adopt. After considering the cost of the mandatory elements, such as the new presentation and disclosure requirements, along with the elective elements, companies should consider whether early adoption is feasible and cost effective.

PwC will publish a summary of the new standard and its transition provisions when it is issued. We will also host a webcast on the new guidance and its implications.

To have a deeper discussion, contact:

Chip Currie
Partner

Email: frederick.currie@pwc.com

Maria Constantinou
Director

Email: maria.constantinou@pwc.com

Nick Milone
Partner

Email: nicholas.k.milone@pwc.com

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