

Early Impressions

Understanding ASU 2025-09 and Its Impact on Derivatives and Hedging (Topic 815)



EXECUTIVE SUMMARY

On November 25, 2025, the Financial Accounting Standards Board (FASB) issued ASU 2025-09, with the objective of more closely aligning hedge accounting with the economics of an entity's risk management activities. In 2017, the Board issued ASU 2017-12 to better **portray the economic results of an entity's risk management activities** in its financial statements and to make certain **targeted improvements** to simplify the application of hedge accounting guidance. Stakeholder feedback received after the issuance of ASU 2017-12 indicated further updates were needed to address certain issues, including the **effects of reference rate reform on hedge accounting**.

The ASU addresses five issues to enable entities to achieve and maintain hedge accounting for highly effective economic hedges of forecasted transactions. These five issues include:

- 01 Similar Risk Assessment for Cash Flow Hedges
- 02 Hedging Forecasted Interest Payments on Choose-Your-Rate Debt Instruments
- 03 Cash Flow Hedges of Nonfinancial Forecasted Transactions
- 04 Net Written Options as Hedging Instruments
- 05 Foreign-Currency-Denominated Debt Instruments as Hedging Instruments and Hedged Item (Dual-Hedge)

In this **Early Impressions** publication, we share our initial perspectives on the amendment: what has changed, why it matters, and what finance leaders should be thinking about now. With the effective date approaching, early assessment and planning will be critical — not only to ensure compliance, but also to leverage the opportunities these amendments offer to simplify hedge accounting by providing long-overdue clarifications on critical matters.

We sincerely hope you find the enclosed publication informative. We will be happy to participate in any discussions required to clarify our views enclosed in the attached publication. We look forward to hearing from you.

Thank you.

Yours faithfully
For Uniquis Consultech Inc.



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Executive Summary

Background

Key Highlights of Amendment in ASU

Effective Date and Transition

Uniquis Perspective of Amendments in ASU

BACKGROUND

The guidance in Topic 815 was previously amended by ASU 2017-12 to improve the hedge accounting model to facilitate financial reporting that more closely reflects an entity's risk management activities. The Board continued to receive stakeholder feedback after the issuance of ASU 2017-12 and through a proposed ASU issued in 2019, which indicated that further updates were needed to improve several areas of hedge accounting guidance and to address the effects of reference rate reform on hedge accounting. After considering the feedback, the Board subsequently issued ASU 2025-09, consistent with the original objective of ASU 2017-12, to more closely align hedge accounting with the economics of an entity's risk management activities. This Update aims to achieve this objective by addressing the five issues below:



Executive Summary

Background

Key Highlights of Amendment in ASU

Effective Date and Transition

Uniquis Perspective of Amendments in ASU

KEY HIGHLIGHTS OF AMENDMENT IN ASU

Similar risk exposure for cash flow hedges (Group of forecasted transactions):

Prior to the adoption of ASU 2025-09, Topic 815 required cash flow hedges of groups of individual forecasted transactions that use a single derivative as the hedging instrument to share the same risk exposure. ASU 2025-09 amends this requirement to allow hedging of similar risk exposures, thereby expanding the pool of forecasted individual transactions eligible for hedging.

To determine if the group of hedged transactions has similar risk exposure, the entity can adopt any of the two methods below:

Executive Summary

determine whether the designated hedging instrument is highly effective in achieving offsetting changes in cash flows attributable to each hedged risk in the group; or

Background

determine whether each hedged risk related to a forecasted transaction hedged in a group is similar to each other hedged risk in the group.

Key Highlights of Amendment in ASU

Similarity is assessed at inception and on an ongoing basis. In addition, in some cases, an entity may conduct such assessments on a qualitative basis.

Effective Date and Transition

The ASU also clarifies that if one or more of the hedged risks in the group become dissimilar, entities must fully de-designate all cash flow hedges related to the pool. Amounts previously recognized in accumulated other comprehensive income (AOCI) should remain until the forecasted transactions affect earnings or until it has become probable that the transactions will not occur.

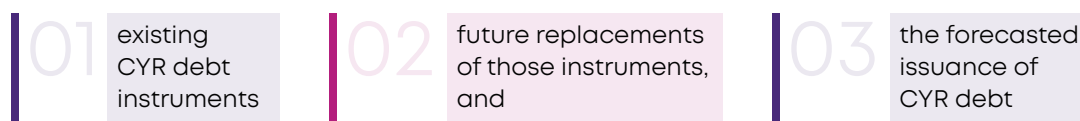
Uniquis Perspective of Amendments in ASU

The above changes are expected to bring efficiencies in simplifying and strategizing complex hedging situations.

Hedging Forecasted interest payment on Choose-Your-Rate (CYR) debt instruments:

ASU 2025-09 adds a new model to Topic 815 applicable for choose-your-rate (CYR) debt instruments. CYR debts are variable-rate debt instruments with terms that allow the borrower to change the interest rate index and interest rate tenor. Prior to ASU 2025-09, there was no specific guidance on how an entity should consider the optionality associated with such instruments, leading to diversity in practice.

The new CYR debt model is optional and applies only to CYR debt instruments that are classified as liabilities. Its use is restricted to cash flow hedges of variable interest payments related to



Existing CYR debt and future replacements

For an existing CYR debt instrument (or its replacement), the borrower must document all contractually available interest rate indexes and tenors (if relevant). Throughout the hedging term, the hedged risk corresponds to the interest rate index (and tenor, if applicable) that the borrower has currently elected. If the borrower later chooses a different contractual index or tenor during the hedge period, the hedge risk is updated to reflect that new selection for the following period, without automatically triggering hedge discontinuation.

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

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

An entity is required to document and disclose the rates (and tenor) that are included in CYR debt offered in the market as the hedged risk(s), and to assess the effectiveness based on its best estimate of the documented rate (and tenor) it will initially select when the debt is issued.

Discontinuance of hedge accounting would occur for existing CYR debt if it becomes probable that replacement debt will initially accrue interest based on an interest rate index (and/or tenor, if applicable) that is not documented, or if the replacement debt is fixed-rate.

Forecasted issuance of CYR debt

To be eligible to hedge a forecasted issuance of CYR debt, the issuance must first be probable. For a forecasted issuance of CYR debt that is probable, an entity must document the rates (and tenor) that are included in CYR debt based on what is currently being offered in the market and make a best estimate of the documented rate (and tenor) it will initially select when the debt is issued.

Hedge effectiveness for forecasted issuance of CYR debt is assessed based on the company's best-estimated rate selected at issuance. If the best estimate changes before the issuance of the CYR debt, a company would apply a similar effectiveness test to existing CYR debt, including both a retrospective and a prospective assessment.

Executive Summary

Background

Key Highlights of Amendment in ASU

Effective Date and Transition

Uniquis Perspective of Amendments in ASU

Discontinuance of hedge accounting would happen for forecasted issuance of CYR debt if:

Issuance of CYR debt is no longer probable; or

It becomes probable that the rate (and tenor) for the first interest period will not be a rate that was documented, even though it is probable that the CYR debt will be issued.

Cash flow hedges of nonfinancial forecasted transactions:

The current guidance utilizes an approach known as the contractually specified component model, which limits the designation of nonfinancial components to those that are contractually specified. The new model introduced by this Update, which is based on the clearly and closely related criteria, permits hedge accounting for eligible components of forecasted spot-market transactions, forward-market transactions, and subcomponents of explicitly referenced components in an agreement's pricing formula.

As per the Update, an entity may designate the variability in cash flows attributable to changes in a component (or subcomponent) of forecasted purchase price or sales price of a nonfinancial asset as the hedged risk in a cash flow hedge as follows:

If the purchase price or sales price of the nonfinancial asset is not determined in accordance with a pricing formula in an agreement, the hedged variable component is clearly and closely related to the nonfinancial asset being purchased or sold.

If the purchase price or sales price of the nonfinancial asset is determined in accordance with a pricing formula in an agreement, the hedged variable component is either of the following:

- Explicitly referenced in the agreement's pricing formula and clearly and closely related to the nonfinancial asset being purchased or sold.
- Clearly and closely related to a variable component that meets the conditions in reference to a subcomponent.

In addition, entities may designate the variable price component in a contract that is accounted for as a derivative as the hedged risk if all other hedge criteria are satisfied.

The new model, based on clearly and closely related criteria, is expected to expand the availability of hedge accounting for forecasted purchases and sales of nonfinancial assets.

Executive Summary

Background

**Key Highlights of
Amendment in ASU**

Effective Date and
Transition

Uniquis Perspective of
Amendments in ASU

Example

On September 30, 2025, Entity ABC forecasts that it will purchase at least 20,000 pounds of aluminum-based packaging materials in the spot market in March 2025 for use in its normal operations. On October 1, 2025, ABC enters into a forward contract to fix the price of the aluminum component of the forecasted purchase price. ABC designates the forward contract as the hedging instrument in a cash flow hedge of the variability in cash flows attributable to changes in the aluminum price component related to its forecasted purchase of packaging materials in the spot market.

The purchase price for the packaging materials is not determined by a pricing formula in the purchase arrangement. This designation is permissible under the ASU because ABC concludes that the aluminum price component is clearly identifiable and closely related to the forecasted purchase of the nonfinancial item, and the forecasted transaction is probable of occurring.

Alternatively, assume the same facts, but instead, Entity ABC enters into a forward contract to fix the price of nickel instead of the aluminum component. Since the price of nickel is not a significant input to the aluminum-based packaging material, it would not be highly correlated with aluminum prices; designation would not be permissible under the Update, as the nickel price is not clearly and closely related.

Executive Summary

Background

Key Highlights of
Amendment in ASU

Effective Date and
Transition

Uniquis Perspective of
Amendments in ASU

Net written options as hedging instruments:

Prior to the Update, fewer hedges would have qualified for hedge accounting on compound derivatives. ASU 2025-09 eliminates the requirement to apply the net written option (NWO) test if they meet the following criteria:

The derivative is designated as the hedging instrument in a cash flow hedge or fair value hedge of interest rate risk (including the interest rate risk portion of a hedge of both interest rate risk and foreign exchange risk).

The hedging instrument is a combination of a written option and a swap.

The notional amount of the written option matches the notional amount of the swap.

If any of the above conditions are not met, the derivative instrument is considered a written option and, therefore, would still be subject to the NWO test.

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

A dual hedge strategy refers to a hedge for which a foreign-currency-denominated debt instrument is both designated as the hedging instrument in a net investment hedge and designated as the hedged item in a fair value hedge of interest rate risk. Prior to this Update, a hedge with a dual hedge strategy would have created an imperfect offset, as there would be recognition of a gain/loss in the cumulative translation account (CTA) for the foreign currency gain and loss on the debt instrument, while there would be a gain/loss recorded in earnings on the fair value hedge.

Under the new guidance, the fair value hedge basis adjustment shall be excluded when performing the net investment hedge effectiveness assessment. The remeasurement of that basis adjustment at the spot rate is recognized in earnings, creating an offset against the remeasurement of the derivative that is designated as the hedging instrument.

Executive Summary

Background

Key Highlights of Amendment in ASU

Effective Date and Transition

Uniquis Perspective of Amendments in ASU

Example

Entity ABC with a U.S. dollar (\$) functional currency has a European subsidiary whose functional currency is the euro (€). On January 1, 2026, Entity ABC issues €100 million of euro-denominated debt with a five-year term. On the same date, Entity ABC enters into an interest rate swap, which is designated as a fair value hedge of the euro-denominated debt's exposure to changes in interest rates. The euro-denominated debt is also designated as a hedge of Entity ABC's net investment in its European subsidiary.

Because the euro-denominated debt is designated both as the hedged item in a fair value hedge and as the hedging instrument in a net investment hedge, Entity ABC applies the guidance in ASU 2025-09 in assessing hedge effectiveness. In performing the effectiveness assessment for the net investment hedging relationship, Entity ABC excludes the effects of any fair value hedge basis adjustments. Assuming a \$4 million fair value hedge basis adjustment is recognized in earnings with an offsetting amount recognized to euro-denominated debt. And further assuming the exchange rate changes from 1.10 to 1.20 during the same period, the resulting \$10 million translation adjustment related to the debt (that excludes the translation adjustment on the \$4 million fair value hedge basis adjustment) is recognized in other comprehensive income, substantially offsetting the translation impact on Entity ABC's net investment in the European subsidiary. And the exchange rate difference on the fair value hedge basis adjustment, i.e., \$4 million is recognized in earnings offsetting against the changes in foreign currency rates on the foreign-denominated interest rate swap designated as a fair value hedge of interest risk.

Prior to the issuance of ASU 2025-09, Entity ABC would have been required to include the effects of the fair value hedge basis adjustment in assessing hedge effectiveness. Assuming the same fact pattern as above, the \$4 million basis adjustment would have been included in the net investment hedge effectiveness assessment and creating an imperfect offset within earnings against the changes in foreign currency rates on the foreign-denominated interest rate swap designated as a fair value hedge of interest risk.

EFFECTIVE DATE AND TRANSITION

Applicability

The amendment in ASU applies to all entities.

Effective Date

- ASU 2025-09 is effective as follows:
 - *Public business entities* – for Annual and Interim reporting for the period with a fiscal year beginning after December 15, 2026.
 - *All other entities* - for Annual and Interim reporting for the period with a fiscal year beginning after December 15, 2027.
- **Early adoption:** Early adoption is permitted for all entities.

Transition Provisions

The Update shall be applied prospectively to all hedging relationships. An entity may elect to adopt the Update to hedging relationships that exist as of the date of adoption.

As part of transition disclosures, entities must 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 and annual reporting periods in which they adopt the ASU.

The Update also allows certain modifications upon transition without requiring the hedge to be redesignated.

- For cash flow hedges of groups of individual forecasted transactions existing as of the date of adoption, an entity may:
 - Modify the method for assessing similar risk exposure to align with one of the two methods described in the Update;
 - Change the method for assessing hedge effectiveness if the revised method leverages a similar risk assessment in determining that the hedging relationship is highly effective;
 - Add additional risk(s) to existing hedging relationship;
 - Migrate individual forecasted transactions from one pool to another; and
 - Reassign and reorder existing hedging instruments to a new or existing pool.
- For hedges of variability in cash flows attributable to changes in the overall price or the contractually specified component of the price in a forecasted purchase or sale of a nonfinancial asset, designate a component or subcomponent as the hedged risk.
- For hedges of forecasted interest payments on existing CYR debt instruments:
 - Amend the relationship to allow for replacement debt; and
 - Specify the quantitative method to be used in the event that it must assess hedge effectiveness on a quantitative basis.
- For hedges of forecasted interest payments that may include interest payments on an existing CYR debt designated as part of a group of forecasted transactions under the first payments-received technique:
 - Amend the relationship to include only interest payments on the individual existing CYR debt instrument and replacement debt; and
 - Specify the quantitative method to be used in the event that it must assess hedge effectiveness on a quantitative basis.

Upon adoption, gains or losses on hedging instruments reporting in accumulated other comprehensive income (AOCI) shall be reassigned using a systematic and rational manner to align with the pool(s) in accordance with this Update. This also applies to amounts still in AOCI for hedges that were discontinued before the adoption date.

Executive Summary

Background

Key Highlights of
Amendment in ASU

**Effective Date and
Transition**

Uniquis Perspective of
Amendments in ASU

UNIQUE PERSPECTIVE OF AMENDMENTS IN ASU

We see this as...

Alignment with risk management activities

ASU 2025-09 creates more alignment between hedge accounting and the entity's risk management activities.

Flexibility and Simplicity

The ASU allows more flexibility and has expanded scope and hence made hedge operations and accounting more simplified.

Companies' Action Point.....

Understand the update and assess applicability

Entities need to assess the applicability of the ASU in their business environment and update their hedging process and its reporting for both annual and interim reporting periods.

Revisit documentation and ensure smooth transition

As part of the transition activities, entities should ensure to appropriately update their documentation and consider the transition activities necessary to ensure smooth adoption of the Update.

For more information on the proposed Accounting Standard Update, see the [press release](#) on the FASB's website.

Executive Summary

Background

Key Highlights of Amendment in ASU

Effective Date and Transition

Unique Perspective of Amendments in ASU



About Uniquis Consultech:

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Uniquis is committed to leveraging technology and an integrated global delivery model to provide best-in-class consulting services to its clients.

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We bring the necessary technical expertise, skills, technology, and bandwidth, enabling you to navigate your plans in real time without adding additional manpower costs within the organization.

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