Heads Up | Volume 27, Issue 11
April 30, 2020

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# FASB Issues Staff Q&A on the Effects of the COVID-19 Pandemic on Cash Flow Hedge Accounting

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## Introduction

On April 28, 2020, the FASB issued a staff Q&A[1] (the "Staff Q&A") in response to frequently asked questions about how the coronavirus disease 2019 ("COVID-19") pandemic might affect entities' application of the cash flow hedge accounting guidance in ASC 815.[2] The Staff Q&A notes that it "does not address other regulatory rules or compliance requirements that entities may need to consider when preparing and issuing financial statements." Further, entities should not analogize the Staff Q&A responses to other facts and circumstances not explicitly addressed therein.

## Determining Whether, for Discontinued Hedges, Delays in the Timing of Forecasted Transactions Caused by the COVID-19 Pandemic Can Be Considered Rare Cases Caused by Extenuating Circumstances

An entity is required to cease hedge accounting for a cash flow hedge of a forecasted transaction upon determining that it is no longer probable that the forecasted transaction will occur within the period originally specified at hedge inception. The guidance in ASC 815-30-40 indicates that the cumulative hedge accounting gain or loss associated with the discontinued hedge would remain in accumulated other comprehensive income (AOCI), and would be reclassified into earnings when the forecasted transaction affects earnings, "unless it is probable that the forecasted transaction will not occur by the end of the originally specified

[1] FASB Staff Q&A, *Topic 815: Cash Flow Hedge Accounting Affected by the COVID-19 Pandemic*.
[2] For titles of *FASB Accounting Standards Codification* (ASC) references, see Deloitte's "Titles of Topics and Subtopics in the *FASB Accounting Standards Codification*."

time period (as documented at the inception of the hedging relationship) or within an additional two-month period of time thereafter." In that case, the entire amount recorded in AOCI would immediately be reclassified into earnings. However, ASC 815-30-40-4 also states, in part:

> In rare cases, the existence of extenuating circumstances that are related to the nature of the forecasted transaction and are outside the control or influence of the reporting entity may cause the forecasted transaction to be probable of occurring on a date that is beyond the additional two-month period of time, in which case the net derivative instrument gain or loss related to the discontinued cash flow hedge shall continue to be reported in accumulated other comprehensive income until it is reclassified into earnings.

In its Q&A, the FASB staff states that it believes that entities may apply the "rare cases" exception cited above to delays in the timing of the forecasted transactions if those delays "are related to the effects of the COVID-19 pandemic." Accordingly, if an entity determines that such delayed forecasted transactions are still probable of occurring after the additional two-month period, the entity would retain those amounts associated with the discontinued cash flow hedge in AOCI until the forecasted transaction affects earnings. However, if an entity determines that it is no longer probable that the forecasted transactions will occur within a reasonable time period after the additional two-month period, the entity would be required to (1) immediately reclassify amounts previously reported in AOCI related to the discontinued hedge into earnings and (2) provide appropriate disclosure in its interim and annual financial statements.

**Connecting the Dots**

An entity will need to exercise judgment and consider the specific facts and circumstances of its forecasted transactions to determine whether (1) delays in the timing of the forecasted transactions were related to the effects of the COVID-19 pandemic and (2) it is still probable that a forecasted transaction will occur after the additional two-month period. Specifically, the Staff Q&A notes that "[w]hen applying the [rare cases] exception, an entity should consider whether the forecasted transaction remains probable over a time period that is reasonable given the nature of the entity's business, the nature of the forecasted transaction, and the magnitude of the disruption to the entity's business related to the effects of the COVID-19 pandemic."

## Implications of Missed Forecasts Related to the Effects of the COVID-19 Pandemic

The guidance in ASC 815-30-40-5 on the discontinuation of cash flow hedges states that a "pattern of determining that hedged forecasted transactions are probable of not occurring would call into question both an entity's ability to accurately predict forecasted transactions and the propriety of using hedge accounting in the future for similar forecasted transactions."

In its Q&A, the FASB staff clarifies that an entity does not need to consider a missed forecasted transaction related to the effects of the COVID-19 pandemic when it assesses whether it has shown a pattern of missed forecasts as discussed in ASC 815-30-40-5.

**Connecting the Dots**

In its Q&A, the FASB staff notes that "[d]etermining whether the missed forecast is related to the effects of the COVID-19 pandemic will require judgment based on facts and circumstances."

This clarification regarding whether a missed forecast related to COVID-19 would call into question the entity's ability to apply cash flow hedge accounting in the future does not affect the entity's accounting for a missed forecast under ASC 815-30-40-5 or its required disclosures under ASC 815-10-50-4C(f).[3]

## Next Steps

The FASB staff noted that it will continue to monitor evolving issues related to the COVID-19 pandemic and will "communicate with the industry as this situation unfolds, including through additional statements, technical inquiries, and other means, as appropriate."

[3] ASC 815-30-50-1(e) if the entity has not adopted the guidance in FASB Accounting Standards Update No. 2017-12, *Targeted Improvements to Accounting for Hedging Activities*.

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