

(Tentative translation)

**[IV] "Practical Solution on the Treatment of Hedge Accounting
for Financial Instruments that Reference LIBOR" released by the ASBJ**

- The Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks introduced the outline of the Exposure Draft of Practical Solution on the Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR (Exposure Draft of the Practical Issue Task Force [PITF], No. 59, hereinafter referred to as the "Exposure Draft") at its fifteenth meeting (July 16, 2020), which was released by the Accounting Standards Board of Japan (ASBJ) on June 3. Thereafter, the ASBJ made necessary changes to the Exposure Draft, based on the comments obtained from the public, and issued the PITF No.40 for Practical Solution on the Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR (hereinafter referred to as the "PITF") on September 29.¹

Outline of the PITF

- With regard to financial instruments referencing LIBOR, the PITF aims to provide accounting relief for contract modifications and renewal that are to be carried out to keep the economic effect of the contracts essentially equivalent before and after the benchmark replacement.
- Before the benchmark replacement, the PITF mainly provides the following optional expedients.
 - With regard to the quantitative effectiveness test of the hedge accounting, an entity may conduct preliminary testing on the assumption that reference rates of the hedging instrument and the hedged item remain unchanged. In addition, even in a case where the hedging relationship is not deemed highly effective, as a result of the post-testing, the hedge accounting may continue to be applied.
 - An entity may assume that reference rates of the hedging instrument and the hedged item remain unchanged when judging whether the hedging relationship meets the requirements for the exceptional accounting of interest rate swaps.
- After the benchmark replacement, an entity may apply the optional expedients for the post-testing of the hedge accounting and the exceptional accounting of interest rate swaps until the business year ending on and before March 31, 2023.²

¹ Although slight modifications were made, much of the content is the same as that of the Exposure Draft. For details, see the ASBJ's website (https://www.asb.or.jp/en/jp-gaap/accounting_standards/y2020/2020-0929.html).

² The deadline has been set approximately a year after the scheduled discontinuation of LIBOR.

Schedule for application

- The accounting and disclosure treatments available in the PITF may be adopted on or after the publication date of the PITF.
- An entity may elect the optional expedients for hedging relationships on an individual hedging relationship basis.
- Meanwhile, due to a number of uncertainties regarding the practice of selecting replacement benchmarks and the hedging behavior of entities, the expedients after the benchmark replacement will be reviewed approximately one year after the publication of the PITF.
- The Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks welcomes the release of the PITF by the ASBJ and expects each entity to make further progress on necessary deliberations and preparations, as they reference the PITF and take advice from auditing firms.