MINUTES

FINANCIAL ACCOUNTING STANDARDS BOARD

MEMORANDUM

To:	Board Members		
From:	Accounting for Financial Instruments Team		
Subject:	March 23, 2016 Board Meeting—Accounting for Financial Instruments: Hedging	**Date:**	March 25, 2016

The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue an Accounting Standards Update or a Statement of Financial Accounting Concepts.

Topic:	Accounting for Financial Instruments: Hedging
Basis for Discussion:	FASB Memo No. 12—Transition Alternataives
Length of Discussion:	10:40 a.m. to 11:15 a.m. (EDT)

Attendance:

Board members present:	Golden, Linsmeier, Schroeder, Siegel, Kroeker and L. Smith
Board members absent:	Buck
Staff in charge of topic:	Gabello
Other staff at Board table:	Cosper, Esposito, Kamhi, Um, Sangiuolo, Viramontes, and Seward
Outside participants:	None

<u>Type of Document and Timing Based on the Technical Plan</u>:

The Board met to discuss discuss transition alternatives for proposed Accounting Standards Update, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities—Financial Instruments (Topic 825) and Derivatives and Hedging (Topic 815).*

A proposed Accounting Standards Update is expected to be issued in the first half of 2016.

<u>Tentative Board Decisions</u>:

The Board discussed transition alternatives and related disclosures, transition elections, and additional transition considerations at the adoption date.

Transition Alternatives

The Board decided that an entity would apply either a modified retrospective approach or a retrospective approach as of the adoption date to hedging relationships existing at that date.

If an entity elects to apply a modified retrospective approach for cash flow and net investment hedges, the entity would record the cumulative effect of the application of the recognition requirements in accumulated other comprehensive income with an offsetting adjustment through the opening balance of retained earnings as of the adoption date. An entity would continue to be required to provide the tabular disclosures resulting from the application of current guidance for comparative periods before the date of adoption. An entity would be required to provide the new tabular disclosures for the periods after the date of adoption.

If an entity elects to apply a retrospective approach for all hedges, the entity would be required to provide the new tabular disclosures for all periods presented.

(Vote: 7-0)

Transition Disclosures

The Board decided that upon adoption, an entity would be required to provide the following transition disclosures within Topic 250 on accounting changes and error corrections:

1. The nature of and reason for the change in accounting principle
2. The cumulative effect of the change on the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) as of the date of adoption
3. The disclosure in (1) and (2) should be provided in each interim and the annual financial statement period in the year of the change.

The Board decided that if an entity elects to use a retrospective approach, the entity also would be required to provide the following additional transition disclosures within Topic 250:

1. A description of the prior-period information that has been retrospectively adjusted
2. The cumulative effect of the change on the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) as of the earliest period presented.

(Vote: 7-0)

Transition Elections at Adoption

The Board decided to allow an entity to make the following one-time elections upon adoption:

1. An entity could amend hedge documentation for existing hedging relationships to incorporate whether subsequent assessments of effectiveness would be performed qualitatively. An entity could make this election by the end of the first fiscal year after the adoption date.
2. An entity could amend hedge documentation for existing shortcut method hedging relationships to incorporate how quantitative assessments of effectiveness would be performed if it is determined at a later date that use of the shortcut method is no longer appropriate. An entity could make this election by the end of the first fiscal year after the adoption date.
3. An entity could set the terms of the hypothetical derivative to be at-market (that is, a fair value of zero) as of the original hedge inception date (that is, before the adoption date) for hedging relationships that meet the criteria to designate the variability in a contractually specified component as the hedged risk. An entity could make this election on or before the first quarterly hedge effectiveness assessment date after the adoption date.

(Vote to provide one-time elections at adoption: 7-0)

(Vote not to mandate application of the one-time elections collectively: 7-0)

(Vote to apply the first two elections by the end of the first fiscal year after the adoption date: 5-2)

(Vote to apply the third election on or before the first quarterly hedge effectiveness assessment date after the adoption date: 7-0)

Additional Transition Considerations at Adoption

Measurement Methodology for Hedged Items in Fair Value Hedges of Interest Rate Risk

The Board decided that if an entity elects to de-designate and immediately re-designate a fair value hedge of interest rate risk upon adoption and change its measurement methodology for the hedged item in accordance with the adoption of the amendments, the basis adjustment of the hedged item from the de-designated hedging relationship would be incorporated into the new hedging relationship. That is, an entity would adjust the cumulative basis adjustment recorded for the hedged item in the de-designated hedging relationship to reflect the basis adjustment that would have been recorded if the revised measurement methodology in the re-designated relationship had been used throughout the hedging relationship's life. Entities would adjust the basis of the hedged item through the opening balance of retained earnings upon adoption of the proposed amendments.

Incorporating Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index into the Definition of Benchmark Interest Rate for Fair Value Hedges

The Board considered the transition for hedges of a tax-exempt security where the hedged risk was the total price of the security before adoption. The Board decided that if upon adoption of the proposed amendments, an entity were hedging a tax-exempt security where the hedged risk was the total price of the security, and it de-designated and simultaneously re-designated the hedging relationship with the hedged risk defined as fluctuations in SIFMA, the basis adjustment from the de-designated hedging relationship would be "frozen" at the time of de-designation and manually amortized over the remaining life of the hedged item.

Partial-Term Fair Value Hedging

The Board decided that there would be no transition guidance for partial-term fair value hedges existing at adoption for which the hedge is designated in accordance with paragraph 815-20-25-12(b)(2)(ii). The Board plans to include a question in the proposed Update about whether entities apply the current partial-term hedging guidance and, if so, whether transition guidance for those hedging relationships is needed.

(Vote for all additional transition considerations: 7-0)

Disclosures

The Board decided that an entity would be exempt from providing the following disclosures for periods before the adoption date that are presented in the financial statements:

1. The basis adjustment amounts for fair value hedges
2. Qualitative information about quantitative goals.

(Vote: 7-0)

Early Adoption

Early adoption would be permitted at the beginning of any fiscal period before the effective date. An entity would be required to adopt all of the amendments at one date.

(Vote: 5-2)

Next Steps

The staff plans to:

1. Develop a draft of a proposed Accounting Standards Update
2. Discuss the following with the Board: (a) feedback from external reviewers on the draft proposed Update; (b) the anticipated costs, benefits, and complexity resulting from the proposed Update; and (c) the comment period.

General Announcements: None