

MINUTES



MEMORANDUM

To: Board Members

From: Accounting for Financial Instruments Team

Subject: Minutes of June 7, 2017 Board Meeting

Date: June 14, 2017

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. 30, "Sweep Issues Arising from Drafting and External Review," No. 31, "Additional Transition Issues Arising from Redeliberations and External Review," No. 32, "Substantive Drafting Changes to Be Made to the Final Update," No. 33, "Effective Date and Early Adoption," No. 34, "Analysis of Costs, Benefits, and Complexities and Permission to Ballot," and No. 35, "External Review Cover Memo"

Length of Discussion: 9:00 a.m. to 10:30 a.m. (EDT)

Attendance:

Board members present: Golden, Kroeker, Siegel, Botosan, Monk, Schroeder, and L. Smith

Board members absent: None

Staff in charge of topic: Gabello

Other staff at Board table: Cosper, Esposito, Kamhi, Um, Sangiuolo, Thornburg, Baumann, and Kinley

Outside participants: None

Type of Document and Timing Based on the Technical Plan:

The Board met to discuss issues relating to the development of a final Accounting Standards Update addressing derivatives and hedging. The Board's technical plan calls for that document to be issued early in the third quarter of 2017.

Tentative Board Decisions:

The Board discussed the following issues in the proposed Accounting Standards Update, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*:

1. Sweep issues arising from drafting and external review
2. Additional transition issues arising from redeliberations and external review
3. Substantive drafting changes to be made to the final Update
4. Effective date and early adoption
5. Analysis of costs, benefits, and complexities of decisions reached to date on hedge accounting and permission to ballot a final Accounting Standards Update.

Sweep Issues Arising from Drafting and External Review

The Board decided the following:

1. To expand the scope of the private company hedge documentation timing decision to not-for-profit entities (except for not-for-profit entities that have issued, or are a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market).
(Vote: 7–0)
2. To expand the scope of the amortization approach for amounts excluded from the assessment of effectiveness to hedges of a net investment in a foreign operation.
(Vote: 7–0)

Additional Transition Issues Arising from Redeliberations and External Review

The Board decided the following:

1. An entity is not required to assess similar hedges in a similar manner when comparing similar hedging relationships executed before and after the adoption date for any of the following:

- a. For (1) hedging relationships executed before the adoption date designated under the shortcut method for which the hedge documentation was not amended to specify a long-haul method that would be employed if use of the shortcut method was not or no longer is appropriate and (2) hedging relationships executed after the adoption date designated under the shortcut method for which a long-haul method is specified if use of the shortcut method was not or no longer is appropriate.
(Vote: 7-0)
 - b. For (1) hedging relationships executed before the adoption date for which the hedged risk was not amended to a contractually specified component or a contractually specified interest rate and (2) hedging relationships executed after the adoption date for which the hedged risk is the variability in cash flows attributable to changes in a contractually specified component or a contractually specified interest rate.
(Vote: 7-0)
 - c. For (1) hedging relationships executed before the adoption date for which amounts excluded from the assessment of effectiveness are recorded in earnings under a mark-to-market approach and (2) hedging relationships executed after the adoption date for which amounts excluded from the assessment of effectiveness are recorded in earnings under an amortization approach.
(Vote: 7-0)
2. An entity will not be required to assess similar hedges in a similar manner when an entity assesses effectiveness on a qualitative basis, as proposed in the proposed Update. Qualitative assessments may be performed on a hedge-by-hedge basis.
(Vote: 7-0)
 3. An entity may elect in transition to transfer financial assets classified as held-to-maturity that qualify as hedged items under the last of layer method to the available-for-sale category.
(Vote: 6-1)
 4. Cross-currency basis spreads may be excluded from the assessment of effectiveness for existing fair value hedging relationships as of the date of adoption.
(Vote: 7-0)

5. Private companies that are not financial institutions and not-for-profit entities (except for not-for-profit entities that have issued, or are a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market) must make transition elections before the next set of interim (if applicable) or annual financial statements is available to be issued. All other entities must make those elections before the first effectiveness testing date after adoption.

(Vote: 7-0)

6. For fair value hedges of interest rate risk existing as of the date of adoption for which an entity modifies the measurement of the hedged item to the benchmark rate component cash flows, an entity may elect to partially dedesignate a portion of the hedged item and reclassify the basis adjustment associated with the portion of the dedesignated hedged item to the opening balance of retained earnings.

(Vote: 7-0)

Substantive Drafting Changes to Be Made to the Final Update

The Board decided that no additional analysis or information was required with regard to the substantive drafting amendments to be made to the final Update.

(Vote: 7–0)

Effective Date

The Board decided that the effective date for public business entities will be for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years.

(Vote: 7–0)

The Board also decided that the effective date for entities other than public business entities will be for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020.

(Vote: 7–0)

Early Adoption

The Board decided to permit early adoption in any interim or annual period upon issuance of the final Update.

(Vote: 7–0)

Analysis of Costs, Benefits, and Complexities of Decisions Reached to Date

The Board decided that it has received sufficient information and analysis to make an informed decision on the issues presented. The Board also concluded that the benefits of the amendments justify the related costs.

(Vote: 7–0)

Permission to Ballot a Final Accounting Standards Update

The Board directed the staff to draft a final Accounting Standards Update for vote by written ballot.

(Vote: 7–0)

Formation of a Transition Resource Group

The Board decided that a transition resource group was not necessary to address implementation questions.

(Vote: 7–0)

General Announcements: None