MINUTES

To:	Board Members		
From:	PCC Team (Cheng, ext. 236)		
Subject:	Minutes of June 10, 2013, Board Meeting: Endorsement of PCC Decisions	**Date:**	June 12, 2013
cc:	Sutay		

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: Private Company Council (PCC)

Basis for Discussion: FASB Memo 2 – Endorsement of PCC Decisions

Length of Discussion: 8:00 to 9:20 a.m.

Attendance:

Board members present: Seidman, Buck, Golden, Linsmeier, Schroeder Siegel, Smith

Board members absent: None

Staff in charge of topic: Cheng

Other staff at Board table: Cosper, Mechanick (by phone), Or, Gagnon, Goswami

Outside participants: None

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

The Board endorsed the decisions of the Private Company Council from their May 7th meeting.

The Board's Technical Plan calls for three Exposure Drafts to be issued in the second quarter of 2013.

<u>Summary of Decisions Reached</u>:

The Board endorsed the following Private Company Council (PCC) decisions reached at the May 7, 2013 PCC meeting.

PCC Issue No. 13-01A, "Accounting for Identifiable Intangible Assets in a Business Combination"

Under this proposal, private companies would have the option of limiting the recognition of intangible assets acquired in a business combination to those arising from noncancelable, contractual arrangements or other legal rights. In other words, private companies would not be required to recognize separately an intangible asset that is only separable.

For further details refer to the May 7, 2013 PCC Decision Overview.

PCC Issue No. 13-01B, "Accounting for Goodwill Subsequent to a Business Combination"

This proposal would provide private companies with the option of accounting for goodwill using a method that includes both amortization and a simplified impairment test. Private companies electing this option would amortize goodwill over the useful life of the primary asset acquired in a business combination, not to exceed 10 years. Under the proposed simplified impairment test, private companies would test for impairment only when a triggering event occurs that would more likely than not reduce the fair value of a company below its carrying amount.

For further details refer to the May 7, 2013 PCC Decision Overview.

PCC Issue No. 13-03, "Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps"

The third proposal would allow private companies the option of using two simpler methods to account for certain interest rate swap contracts entered into for the purpose of economically converting a variable-rate borrowing into a fixed-rate borrowing. Under both approaches, the periodic income statement charge for interest would be similar to the amount that would result if the private company had borrowed at a fixed rate. All private companies, except for financial institutions, would be eligible to use the simplified approaches.

Combined Instruments Approach

In order to demonstrate that the intent of the private company in entering into the swap is to economically obtain fixed-rate borrowing, certain criteria would need to be met. Those criteria include:

1. The swap term approximates the term of the borrowing
2. The swap is effective at the same time as the borrowing.

If the criteria are met, the private company would be eligible to apply the "combined instruments" approach. The combined instruments approach provides private companies with an entity-wide accounting policy election to apply a scope exception from the current guidance in Topic 815, Derivatives and Hedging. Under that approach, the swap and the borrowing are accounted for as one combined financial instrument. In other words, the swap would not be recorded in the private company's financial statements (except for the period-end accrual relating to the next swap settlement) under this approach. However, the settlement value of the swap (along with method and assumptions) would be disclosed in the notes to the financial statements. The primary difference between settlement value and fair value is generally a credit valuation adjustment, that is, nonperformance risk is not considered in determining settlement value.

Simplified Hedge Accounting Approach

The "simplified hedge accounting" approach is a practical expedient to obtain hedge accounting under Topic 815. The criteria to qualify for simplified hedge accounting are similar to the criteria proposed under the “combined instruments approach”; however, the term of the swap could be less than the term of the borrowing and the swap does not have to be effective at the same time as the borrowing. This approach assumes no ineffectiveness if the swap is designated in a hedging relationship under Topic 815. Furthermore, the designated swap may be recorded at settlement value in the private company's financial statements, instead of at fair value. Because Topic 815 permits election of hedge accounting on a swap-by-swap basis, a private company could elect to apply this approach to any swaps, whether existing at the date of adoption or entered into on or after that date, provided they otherwise meet all the requirements of applying the approach.

For further details refer to the May 7, 2013 PCC Decision Overview.

Comment Period

The Board decided to expose the proposals with a comment period ending August 23, 2013. However, the Board will reconsider the comment period deadline if the Exposure Drafts are issued after June 2013.

Outreach

For PCC Issue Nos. 13-01A and 13-01B, the Board directed the staff to conduct additional research during the comment period to assess the applicability of these proposals to public and not-for-profit entities.

For PCC Issue No. 13-03, the Board directed the staff to conduct outreach through its normal channels, including advisory groups and other meetings in which the FASB participates to aid in determining applicability of either of the alternatives to public and not-for-profit entities. In light of the FASB hedging project, the Board did not direct the staff to perform additional outreach to public companies during the comment period.

General Announcements: None.