

MINUTES



MEMORANDUM

To: Board Members

From: Accounting for Financial Instruments Team

Subject: October 7, 2015 Board Meeting—
Accounting for Financial Instruments: Hedging

Date: October 8, 2015

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. 10—Sweep Issues Cover
FASB Memo No. 10A—Contractually specified components; Sub benchmark hedging
FASB Memo No. 10B—Excluded Components; Net Investment Hedges
FASB Memo No. 10C—Total Coupon Issue

Length of Discussion: 9:30 a.m. to 11:00 a.m. (EDT)

Attendance:

Board members present: Golden, Buck, Linsmeier, Schroeder, Siegel, and L. Smith

Board members absent: Kroeker

Staff in charge of topic: Gabello, Sangiuolo, and Um

Other staff at Board table: Cospes, Esposito, Kuhaneck, Viramontes, and Bjorkman

Outside participants: None

Type of Document and Timing Based on the Technical Plan:

The Board met to discuss several sweep issues arising during the drafting of a 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 fourth quarter of 2015

Tentative Board Decisions:

The Board continued deliberations on the accounting for hedging activities, specifically discussing net investment hedges, excluded components for net investment and cash flow hedges, use of total coupon cash flows in fair value hedges of benchmark interest-rate risk, sub-benchmark hedges, and contract features that limit exposure to hedged risks. A description of Board decisions follows.

Net Investment Hedges

For qualifying net investment hedges, entities would record the entire change in the fair value of the hedging instrument that is included in the assessment of hedge effectiveness in the cumulative translation adjustment section of other comprehensive income (OCI). In the period(s) the hedged item affects earnings, entities would reclassify changes in fair value of the hedging instrument recorded in OCI to the same income statement line item where the earnings effect of the hedged item is presented. This decision would effectively eliminate the recognition of hedge ineffectiveness for net investment underhedges.

(Vote: 7-0)

Net Investment Hedges—Excluded Components

The current guidance in Topic 815 as it relates to the treatment of the portion (if any) of the hedging instrument's change in fair value that is excluded from the assessment of hedge effectiveness in net investment hedges will be retained without change. Entities would continue to recognize the portion of the hedging instrument's change in fair value that is excluded from the assessment of hedge effectiveness immediately in earnings. The Board decided not to provide guidance on how those changes would be presented.

(Vote: 6-1)

Cash Flow Hedges—Excluded Components

As under current GAAP, entities must recognize immediately in net income the portion (if any) of the hedging instrument's change in the fair value that is excluded from the assessment of hedge effectiveness in a cash flow hedge. However, entities would be required to present recognized amounts in the same income statement line item where the earnings effect of the hedged item is presented.

(Vote: 5-2)

Use of Total Coupon Cash Flows in Fair Value Hedges of Benchmark Interest-Rate Risk and Sub-Benchmark Hedges

An entity would have the choice to use either the cash flows associated with the benchmark interest rate or the total coupon cash flows in calculating the change in the fair value of the hedged item attributable to interest-rate risk in a fair value hedge of benchmark interest-rate risk. If the effective interest-rate of the financial instrument is less than the benchmark interest rate on the date of hedge designation ("sub-benchmark" hedge), however, an entity would be required to use the total coupon cash flows.

(Vote on choice of use of total coupon cash flows: 5-2)

(Vote on sub-benchmark fair value hedges: 6-1)

Cash Flow Hedges of Nonfinancial Items—Contract Features That Limit Exposure

A cap, floor, or negative basis associated with the price of a contractually specified component of a nonfinancial item would not prohibit an entity from designating that contractually specified component as the hedged risk but would potentially affect the assessment of effectiveness should the price of the contractually specified component move above or below the exposure limit.

(Vote: 6-1)

Next Steps

Based on the Board's decisions, the staff plans to:

1. Discuss with the Board documentation requirements for entities that are other than public business entities
2. Develop a staff draft of a proposed Accounting Standards Update to amend Topic 815 reflecting the Board's decisions

3. Prepare an analysis of the costs, benefits, and complexity of the proposed Update, including any additional consideration of the effect the Board's decisions may have on entities that are other than public business entities, and discuss external comments on the staff draft from the external review process
4. Determine the transition approach
5. Discuss the comment period with the Board.

General Announcements: None