

MINUTES



MEMORANDUM

To: Board Members

From: Accounting for Financial Instruments Team

Subject: February 15, 2017 Board Meeting—
Accounting for Financial Instruments: Hedging

Date: February 27, 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. 22, "Prohibition on Return to Qualitative Testing," and No. 23, "PCC Documentation"

Length of Discussion: 9:00 a.m. to 10:15 a.m. (EST)

Attendance:

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

Board members absent: None

Staff in charge of topic: Gabello

Other staff at Board table: Cospes, 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. Returning to qualitative assessments of hedge effectiveness after performing a quantitative assessment of hedge effectiveness
2. Potential changes to the requirements for private company hedge documentation.

Returning to Qualitative Assessments of Hedge Effectiveness after Performing a Quantitative Assessment of Hedge Effectiveness

The Board decided that an entity should be permitted to return to qualitative assessments of hedge effectiveness after a change in facts and circumstances requires a quantitative assessment to be performed or after the entity performs a quantitative assessment to validate whether qualitative assessments of hedge effectiveness remain appropriate.

(Vote: 7-0)

The Board also decided that the same principle and factors should be used to evaluate whether an entity could perform qualitative assessments both at hedge inception and after a quantitative test has been performed after hedge inception.

(Vote: 7-0)

Potential Changes to the Requirements for Private Company Hedge Documentation

The Board decided to allow private companies additional relief as it relates to the timing of hedge documentation. Specifically, a private company must prepare a statement of intent to hedge concurrently with hedge inception, but all initial and subsequent hedge effectiveness assessments (on either a quantitative basis or a qualitative basis as permitted or required by Topic 815) would not be required to be performed and documented until the next set of financial statements is available to be issued. The statement of intent to hedge would include the following information in accordance with paragraph 815-20-25-3(b)(2):

1. The hedging instrument
2. The hedged item or transaction (including required documentation requirements for hedges of forecasted transactions)
3. The nature of the risk being hedged.

The method that will be used to assess effectiveness is not required in the statement of intent to hedge, that is, documentation of the method can be deferred consistent with the hedge effectiveness assessments.

(Vote: 4-3)

The Board also decided not to extend this incremental relief for private companies to private companies that are financial institutions.

(Vote: 7-0)

General Announcements: None