

MINUTES



MEMORANDUM

To: Board Members

From: Accounting for Financial Instruments Team

Subject: January 25, 2017 Board Meeting—
Accounting for Financial Instruments: Hedging

Date: February 2, 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. 20, Hedge Accounting Feedback Summary, and No. 21, Potential Issues for Redeliberation

Length of Discussion: 11:25 a.m. to 12:00 p.m. and 1:00 p.m. to 2:50 p.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: Cospers, 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 feedback received on the proposed Accounting Standard Update, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*, which was issued on September 8, 2016. The comments were due on November 22, 2016. The Board also discussed items for affirmation and potential items for redeliberation based on the feedback received on the proposed Update. The Board made the following decisions.

Amendments in the Proposed Update That Received Overall Support

The Board affirmed its following decisions in the proposed Update that received overall support:

1. Enhancements to fair value hedges of interest rate risk:
 - a. An entity would be permitted to measure the hedged item in a partial-term fair value hedge of interest rate risk by assuming the hedged item has a term that reflects only the designated cash flows being hedged.
 - b. For prepayable financial instruments, an entity would be permitted to consider only how changes in the benchmark interest rate affect a decision to settle a debt instrument before its scheduled maturity in calculating the change in the fair value of the hedged item attributable to interest rate risk.
 - c. An entity would be permitted to measure the change in the fair value of the hedged item either on the basis of the benchmark rate component of the contractual coupon cash flows determined at hedge inception or on the full contractual coupon cash flows as required by current GAAP. (The Board's decision only applies to instances in which, at hedge inception, the market yield of the hedged item is greater than the benchmark rate.)
2. For cash flow hedges of interest rate risk, an entity would be permitted to designate as the hedged risk the variability in cash flows attributable to the contractually specified component.
3. A public business entity would be permitted to perform the initial prospective quantitative assessment of hedge effectiveness at any time

after hedge designation, but no later than the quarterly effectiveness date, using data applicable as of the date of hedge inception.

4. For purposes of assessing whether the qualifying criteria for the critical terms match method are met for a group of forecasted transactions, an entity would be permitted to assume that the hedging derivative matures at the same time as the forecasted transactions if both the derivative maturity and the forecasted transactions occur within the same 31-day period.
5. If an entity that applies the shortcut method determines that use of that method was not or no longer is appropriate, the entity would be permitted to apply a long-haul method for assessing hedge effectiveness as long as the hedge is highly effective and the entity documents at hedge inception which long-haul method it would use.

(Vote: 7-0)

Topic 1: Component Hedging for Nonfinancial Items

The Board affirmed its decision in the proposed Update to allow an entity to designate the variability in cash flows attributable to changes in a contractually specified component as the hedged risk in a cash flow hedge of a forecasted purchase or sale of a nonfinancial asset.

(Vote: 7-0)

Topic 2: Determining Benchmark Rates

The Board affirmed its decision to retain the concept and definition of the term *benchmark interest rate* and a list of eligible benchmark rates in the United States.

The Board affirmed its decision to add the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Rate as an eligible benchmark interest rate.

The Board decided not to redeliberate at a future meeting the issue of adding the concept that a rate “is expected to become widely used” in the current definition of the term *benchmark interest rate*.

(Vote: 7-0)

Topic 3: Sub-Benchmark Debt Issuances and the Market Yield Test

The Board decided to redeliberate at a future meeting whether to require the proposed market yield test to determine whether benchmark cash flows may be used to measure the change in fair value of the hedged item attributable to interest rate risk. In accordance with this test, if, at hedge inception, the benchmark rate is

greater than the market yield of the hedged item, the full contractual coupon cash flows of the hedged item must be used in measuring the change in fair value of the hedged item attributable to interest rate risk.

(Vote: 7-0)

Topic 4a: Presentation Requirements within the Proposed Update (General)

The Board affirmed its decision on the general model on presentation in the proposed Update that all changes in the fair value of the hedging instrument included in the assessment of effectiveness would be presented in the same income statement line item as the earnings effect of the hedged item. The Board also affirmed its decision that amounts excluded from the assessment of effectiveness in fair value and cash flow hedges would be presented in the same income statement line item in which the earnings effect of the hedged item is (or will be) presented.

(Vote: 7-0)

Topic 4b: Recognition of Excluded Components

The Board decided to redeliberate at a future meeting the recognition model for excluded components.

(Vote: 7-0)

Topic 4c: Presentation of Missed Forecasts

The Board decided to rescind the amendment in the proposed Update that would have required the change in the fair value of a hedging instrument of a hedged forecasted transaction that is probable of not occurring to be presented in the same income statement line item in which the earnings effect would have been presented had the hedged forecasted transaction occurred.

(Vote: 5-2)

Topic 5: Disclosures

The Board decided to affirm its decision in the proposed Update that would require the disclosure of cumulative basis adjustments for fair value hedges and the revised tabular disclosure for fair value and cash flow hedges.

The Board decided to rescind the disclosure requirement regarding qualitative disclosures of quantitative hedge accounting goals.

(Vote: 7-0)

Topic 6a: Qualitative Testing (General)

The Board affirmed its decision in the proposed Update that would allow an entity to perform assessments of hedge effectiveness on a qualitative basis in instances in which an initial quantitative assessment is required.

(Vote: 7-0)

Topic 6b: Returning to Qualitative Testing After Quantitative Testing Is Performed Because of a Change in Facts and Circumstances

The Board decided to redeliberate at a future meeting the prohibition on returning to qualitative testing after a quantitative test is required because of a change in facts and circumstances.

(Vote: 7-0)

Topic 7: Private Company Hedge Documentation

The Board decided to redeliberate at a future meeting the timing of the preparation of hedge documentation for private companies.

(Vote: 7-0)

Topic 8: Cross Currency Basis Spreads as an Amount That May Be Excluded from the Assessment of Hedge Effectiveness

The Board decided to include in redeliberations at a future meeting whether to consider a cross currency basis spread in a cross currency swap as an amount that may be excluded from the assessment of hedge effectiveness.

(Vote: 7-0)

Topic 9: Hedging Proceeds to Be Received from a Forecasted Foreign-Currency-Denominated Debt Issuance (Originally Issued as Proposed Derivatives and Implementation Group (DIG) H17, Hedging Functional-Currency-Equivalent Proceeds to Be Received from a Forecasted Foreign-Currency-Denominated Debt Issuance

The Board decided not to deliberate the issue raised in DIG H17. This issue would have prohibited an entity from obtaining hedge accounting for a cash flow hedge on the fluctuation in foreign-exchange risk on proceeds to be received from a forecasted issuance of foreign-currency-denominated debt.

(Vote: 7-0)

Topic 10: Fair Value Portfolio Hedges of Interest Rate Risk

The Board decided that the staff should perform further research to determine whether to include in redeliberations at a future meeting potential amendments to the fair value portfolio hedging model related to prepayment risk.

(Vote: 7-0)

Topic 11: Changes in the Designated Component in a Hedged Forecasted Transaction

The Board decided that in a cash flow hedge of a hedged forecasted transaction if the hedged risk component changes from the risk originally designated (for example, from LIBOR to Prime) and the hedged forecasted transaction remains probable of occurring, an entity would not need to dedesignate the hedging relationship if the derivative remains highly effective at offsetting the cash flows associated with the hedged item. A change in the hedged risk also would not affect an entity's conclusion of whether the forecasted transaction remains probable of occurring. This decision would apply to hedges of both financial instruments and nonfinancial items.

The Board decided that the staff could handle this issue in drafting.

(Vote: 7-0)

General Announcements: None