

MINUTES



MEMORANDUM

To: Board Members

From: Accounting for Financial Instruments Team

Subject: Minutes of September 5, 2018 Board Meeting **Date:** September 13, 2018

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: Codification Improvements—Financial Instruments

Basis for Discussion: FASB Memo No. 1, “Codification Improvements—Cover Memo”
FASB Memo No. 1A, “Codification Improvements—Update No. 2016-13”
FASB Memo No. 1B, “Codification Improvements—Update No. 2017-12 and Other Hedging Items”
FASB Memo No. 1C, “Codification Improvements—Update No. 2016-01”

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

Attendance:

Board members present: Golden, Kroeker, Botosan, Buesser, and Schroeder

Board members absent: Hunt

Staff in charge of topics: Gabello and Shah

Other staff at Board table: Cosper, Kuhaneck, Gabello, Romano, Shah, Cahill, Cryderman, LaFrano, and Jepsen

Outside participants: None

Type of Document and Timing Based on the Technical Plan:

The Board met to discuss potential amendments to the Codification related to the following three recently issued Accounting Standards Updates:

1. Update No. 2016–13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*
2. Update No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*
3. Update No. 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.*

Tentative Board Decisions:

The Board discussed proposed amendments to the Codification to clarify implementation issues related to Accounting Standards Updates No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*, and No. 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.*

The Board decided to amend the guidance in Update 2016-13 for each of the following issues:

1. Effective interest rate (EIR) for variable rate loans **(Vote 6-0; 1 Board member voted by proxy)**
2. Adjusting the EIR for prepayment expectations **(Vote 6-0; 1 Board member voted by proxy)**
3. Consideration of costs to sell when foreclosure becomes probable **(Vote 6-0; 1 Board member voted by proxy)**
4. Clarification that reinsurance receivables are within the scope of Subtopic 326-20 **(Vote 6-0; 1 Board member voted by proxy)**
5. Reference error in paragraph 310-40-55-14 **(Vote 6-0; 1 Board member voted by proxy)**
6. Cross-references in the guidance for equity method losses. **(Vote 6-0; 1 Board member voted by proxy)**

The Board did not have questions or issues to discuss about implementation-related technical inquiries related to Update 2017-12. The staff's interpretations related to the following issues are posted on the [Hedging Implementation website](#):

1. Switching hedge effectiveness assessment methods for net foreign investment hedges
2. Timing of initial quantitative hedge effectiveness assessment
3. Simultaneous designation of hedged item for fair value and cash flow hedges
4. Sale or transfer of assets out of a closed portfolio in a last-of-layer hedge
5. Documentation of a fallback long-haul hedge effectiveness assessment method
6. Change in hedged risk guidance for a cash flow hedge of forecasted issuance of fixed-rate debt
7. Reclassification of prior-period information.

(Vote 6-0; 1 Board member voted by proxy)

The Board decided to amend the guidance in Update 2017-12 for each of the following issues:

1. Partial-term fair value hedges of both interest rate risk and foreign exchange risk **(Vote 6-0; 1 Board member voted by proxy)**
2. Amortization of fair value hedge basis adjustments **(Vote 6-0; 1 Board member voted by proxy)**
3. Disclosure of fair value hedge basis adjustments **(Vote 6-0; 1 Board member voted by proxy)**
4. Consideration of the hedged contractually specified interest rate under the hypothetical derivative method **(Vote 6-0; 1 Board member voted by proxy)**
5. Not-for-profit scope **(Vote 6-0; 1 Board member voted by proxy)**
6. Hedge accounting provisions applicable to certain private companies and not-for-profit entities **(Vote 6-0; 1 Board member voted by proxy)**
7. Application of a "first of" cash flow hedging technique to overall cash flows on a group of variable interest payments **(Vote 6-0; 1 Board member voted by proxy)**
8. Transition guidance clarification. **(Vote 6-0; 1 Board member voted by proxy)**

The Board decided to amend the guidance in Update 2016-01 for each of the following issues:

1. Applicability of Topic 820 to the measurement alternative **(Vote 6-0; 1 Board member voted by proxy)**

2. Fair value disclosure exclusion for held-to-maturity (HTM) debt securities measured at amortized cost for nonpublic business entities **(Vote 6-0; 1 Board member voted by proxy)**
3. Scope exclusions for Topics 320 and 321 **(Vote 6-0; 1 Board member voted by proxy)**
4. Marketable securities as nonmonetary balance sheet items. **(Vote 6-0; 1 Board member voted by proxy)**

The Board directed the staff to begin work on a research project regarding the measurement alternative and observable transactions identified after the reporting date. **(Vote 5-1; 1 Board member voted by proxy)**

Analysis of Costs and Benefits

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

(Vote 6-0; 1 Board member voted by proxy)

Next Steps

The Board directed the staff to:

1. Draft a proposed Accounting Standards Update for vote by written ballot, which would include both:
 - a. The proposed amendments related to the June 11, 2018 Credit Losses Transition Resource Group (TRG) meeting discussed at the August 29, 2018 Board meeting
 - b. Proposed amendments related to Codification improvements to various financial instrument Topics listed above discussed at the September 5, 2018 Board meeting.
2. Include questions in the Exposure Draft relating to whether:
 - a. Entities should be allowed separate elections to adjust the EIR for projections of future interest rate environments and for prepayment expectations.
 - b. Partial-term fair value hedging should be expanded to all risks eligible for hedge accounting.

The Board decided that the proposed Update should have a comment period of 30 days.

(Vote 6-0; 1 Board member voted by proxy)

General Announcements: None.