MINUTES

MEMORANDUM

To:	Board Members		
From:	Accounting for Financial Instruments Team		
Subject:	Minutes of May 8, 2019 Board Meeting	**Date:**	May 8, 2019

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—Hedge Accounting

Basis for Discussion: FASB Memo No. 7, *Additional Codification Improvements and Amendments—Update No. 2017-12*

Length of Discussion: 10:00am to 10:45am EDT

Attendance:

Board members present:	Golden, Kroeker, Botosan, Hunt, Shroeder, Buesser, and Cosper
Staff in charge of topic:	Gabello
Other staff at Board table:	Kuhaneck, Cahill, Challen, Jentgen, and Jepsen

Type of Document and Timing Based on the Technical Plan:

The Board met to discuss proposed codification improvements to Accounting Standards Update No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted improvements to Accounting for Hedging Activities.*

Tentative Board Decisions:

At the May 8, 2019 Board meeting, the Board decided to amend the guidance in Topic 815, Derivatives and Hedging, for each of the following topics:

Change in Hedged Risk in a Cash Flow Hedge

The Board decided that when hindsight is applied to identify hedged transactions with a revised hedged risk that would not have achieved a highly effective hedging relationship:

1. Amounts deferred in accumulated other comprehensive income (AOCI) would remain in AOCI until the associated forecasted transaction affects earnings.
2. Amounts reclassified from AOCI to earnings would be recognized in the same income statement line item as the earnings effect of the hedged forecasted transaction.
3. The change in hedged risk would not count as a missed forecast. (**Vote: 6-1**)

The Board also decided to:

1. Reverse its tentative decision made at the March 28, 2018 Board meeting that would have allowed an entity to identify only hedged transactions using hindsight if the transactions had not yet affected reported earnings. Instead, all forecasted transactions that occurred would be eligible for identification as hedged forecasted transactions. (**Vote: 7-0**)
2. Require an entity to establish an accounting policy for identifying hedged transactions with undocumented hedged risks using hindsight. (**Vote: 5-2**)
3. Amend the scope of the change in hedged risk guidance to exclude hedges of foreign exchange risk and hedges of credit risk, subject to feedback received on the proposed Accounting Standards Update. (**Vote: 7-0**)

Contractually Specified Components

The Board decided to clarify:

1. The nature of agreements in which a contractually specified component (CSC) may be evidenced, with an emphasis on the requirement that the CSC would need to be explicitly referenced in those agreements.
2. The clearly and closely related underlying portion of the normal purchases and normal sales scope exception is the only portion of the exception that

would need to be applied for an entity to designate the variability in a CSC as the hedged risk in a nonfinancial purchase or sale agreement that qualifies for hedge accounting. (**Vote: 7-0**)

Dual Fair Value and Net Investment Hedge (Dual Hedge Relationship)

For dual hedge relationships in which a debt instrument is both a hedging instrument in a net investment hedge in a foreign entity and a hedged item in a fair value hedge of interest rate risk, the Board decided to:

1. Require an exception to the recognition and presentation requirements established by the amendments in Update 2017-12. An entity would be required to exclude the foreign-currency-denominated debt's fair value hedge basis adjustment from the effectiveness assessment of the net investment hedge.
2. Clarify that this guidance could not be applied by analogy to any fact pattern outside a dual hedge relationship. (**Vote: 7-0**)

Use of the Term Prepayable under the Shortcut Method

The Board decided to clarify that the intended meaning of the term prepayable under the shortcut method guidance differs from that under the amended guidance in Update 2017-12 by replacing the term prepayable or prepayment with early settlement and replacing the term prepaid with settled early in the shortcut method guidance. (**Vote: 7-0**)

Transition Guidance

The Board decided that for entities that have not adopted the amendments in Update 2017-12 before the issuance date a final Accounting Standards Update, the proposed amendments would be adopted in accordance with paragraph 815-20-65-3.

The Board decided that the following transition provisions would apply for entities that have adopted the amendments in Update 2017-12 before the issuance date of a final Accounting Standards Update:

1. For Issue 1 on change in hedged risk, an entity would be allowed to apply the proposed amendments on a prospective or retrospective basis. For retrospective application, if an entity reclassified amounts from AOCI to earnings because of a missed forecast between the adoption date of Update 2017-12 and the adoption date of a final Update of these proposed amendments, the entity may apply the change in hedged risk guidance to those hedges to determine whether the forecasted transaction was fulfilled by a revised hedged risk. In those cases, the entity would then adjust the effect on earnings, retained earnings, and AOCI in each period since the adoption of Update 2017-12.

2. For Issue 2 on contractually specified components, for those forecasted purchases or sales of nonfinancial assets that have been clarified to qualify for contractually specified component risk hedging in accordance with these proposed amendments:
    a. An entity that adopts the amendments in the proposed Update on a retrospective basis would be permitted to amend hedge documentation from hedging overall price risk to contractually specified component risk without dedesignation for hedging relationships:
        i. Existing as of the date of adoption of Update 2017-12 and
        ii. Designated between the adoption date of Update 2017-12 and the adoption date of a final Update of these proposed amendments.
    b. An entity that adopts the proposed amendments on a retrospective basis would be permitted to retroactively designate hedging relationships that existed between the adoption date of Update 2017-12 and the adoption date of a final Update of these proposed amendments.
    c. For an entity that adopts the proposed amendments on a prospective basis, the entity would be allowed to amend its documentation without dedesignation for existing hedges as of the date of adoption of a final Update of these proposed amendments from hedging overall price risk to contractually specified component risk.
3. For Issue 3 on dual hedges, an entity would be required to reclassify to retained earnings or earnings, as appropriate, in the appropriate periods any amounts recorded in AOCI related to the foreign exchange remeasurement of the fair value hedge basis adjustment in the net investment hedge since the date of initial application of Update 2017-12. An entity would be required to amend its documentation of dual hedging relationships without dedesignation to exclude the fair value hedge basis adjustment from the assessment of effectiveness in the net investment hedge. An entity would be permitted to retroactively designate dual hedges for hedging instruments and hedged items that existed between the adoption date of Update 2017-12 and the adoption date of a final Update of these proposed amendments.
4. For Issue 4 on the use of the term prepayable under the shortcut method, the proposed amendments would have no transition guidance because the proposal does not change the application of the shortcut method.

The Board also decided that the transition disclosures would be as follows in the period that the entity adopts these amendments:

1. The nature of and reason for the change in accounting principle.
2. The method of applying the change.
3. The effect of the adoption on any line item in the statement of financial position, if material, as of the beginning of the first period for which the

amendments are effective. Presentation of the effect on financial statement subtotals would not be required.

4. The cumulative effect of the change on retained earnings or other components of equity in the statement of financial position as of the beginning of the first period for which the amendments are effective.

An entity that issues interim financial statements would provide the disclosures in each interim financial statement of the fiscal year of change and the annual financial statements of the fiscal year of change. (**Vote: 7-0**)

General Announcements: None.