

MINUTES



MEMORANDUM

To: Board Members

From: Accounting for Financial Instruments Team

Subject: Minutes of July 31, 2019 Board Meeting **Date:** August 2, 2019

cc: Tosches

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. 8, “External Review Sweep Issues, Proposed Update Comment Period, and Cost-Benefit Analysis”

Length of Discussion: 11:07 a.m. to 11:27 a.m. EDT

Attendance:

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

Staff in charge of topic: Gabello

Other staff at Board table: Kuhaneck, Cahill, Challen, Jentgen, and Japhet

Type of Document and Timing Based on the Technical Plan:

The Board met to discuss proposed amendments to the Codification resulting from stakeholder feedback on Accounting Standards Update No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*.

Tentative Board Decisions:

At the July 31, 2019 Board meeting, the Board discussed the following topics:

Change in Hedged Risk in a Cash Flow Hedge

The Board decided the following:

1. An entity would be required to use only its best estimate of the hedged risk when performing the assessment of hedge effectiveness and clarified that the best estimate must be made at the individual transaction level. **(Vote: 7-0)**
2. An entity would be required to first identify hedged transactions that occur during the hedge period before identifying hedged transactions that occur during the two-month period after the hedge period. **(Vote: 7-0)**
3. An entity would be required to document its method of identifying hedged transactions using hindsight at hedge inception rather than making the hindsight method an accounting principle subject to Topic 250, Accounting Changes and Error Corrections. **(Vote: 7-0)**

Contractually Specified Components

The Board decided to add an additional criterion to hedge a contractually specified component in a spot transaction. That criterion would require that the pricing formula that includes the contractually specified component be based on how the price is determined in the nonfinancial asset's spot market. **(Vote: 7-0)**

Private Company Considerations

The Board decided not to provide private companies and not-for-profit entities with relief to delay the reassessment of their hedged risk best estimate until their financial statements are available to be issued. **(Vote: 7-0)**

Effective Date

The Board decided that the proposed amendments would be effective for all entities for fiscal years beginning after December 15, 2020. For public business entities, the proposed amendments would be effective for interim periods within fiscal years beginning after December 15, 2020. For all other entities, the proposed amendments would be effective for interim periods within fiscal years beginning after December 15, 2021. Early adoption would be permitted for all entities on any date on or after issuance of a final Update if the entity has adopted the amendments in Update 2017-12. **(Vote: 7-0)**

Analysis of Costs and Benefits

The Board decided that:

1. It has received sufficient information and analysis to make an informed decision on the perceived costs of the changes. **(Vote: 7-0)**
2. Subject to feedback received through the comment letter process, the expected benefits would justify the expected costs of the amendments included in the proposed Update. **(Vote: 7-0)**

Next Steps

The Board directed the staff to draft a proposed Accounting Standards Update for vote by written ballot, with a comment period of 60 days. **(Vote: 7-0)**

General Announcements: None