

MINUTES



MEMORANDUM

To: Board Members

From: Accounting for Financial Instruments Team

Subject: Minutes of October 16, 2019 Board Meeting on Hedging—Last-of-Layer Method **Date:** October 18, 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: Hedging—Last-of-Layer Method

Basis for Discussion:

FASB Memo 3 (Revised), “Issues in Developing the Last-of-Layer Model for Multiple Layers and the Accounting for Fair Value Hedge Basis Adjustments”

FASB Memo 4, “Issues in Developing the Last-of-Layer Model for Multiple Layers and the Accounting for Fair Value Hedge Basis Adjustments”

Length of Discussion: 10:00 a.m. to 10:20 a.m. EDT

Attendance:

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

Staff in charge of topic: Gabello

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

Type of Document and Timing Based on the Technical Plan:

The Board met to discuss issues relating to the development of a proposed Update addressing last-of-layer hedging. The Board has not yet determined the timing of the release of that proposed Update.

Tentative Board Decisions:

The Board discussed the topics that were originally introduced at its August 21, 2019 educational meeting on last-of-layer hedging.

Multiple-Layer Issues

In allowing an entity to designate multiple layers (that is, more than one hedging relationship associated with a closed portfolio of prepayable financial assets or one or more beneficial interests secured by a portfolio of prepayable financial instruments), the Board decided that it would:

1. Require an entity to dedesignate the entirety of one or more hedging relationships affected by an actual breach. An actual breach occurs when the sum of the hedged items associated with a closed portfolio is greater than the total assets in the closed portfolio in the current period. **(Vote: 7-0)**
2. Continue to allow partial dedesignation for anticipated breaches. An anticipated breach occurs when the sum of the hedged items is not in breach in the current period but is expected to be in breach in a future period. **(Vote: 7-0)**

(Issues 1 and 2 were voted on together.)

3. Permit an entity to document at hedge inception a sequence in which hedging relationships associated with a closed portfolio would be dedesignated in the case of an actual breach. If an entity does not document a dedesignation sequence at hedge inception and an actual breach occurs, the entity would be required to dedesignate all hedging relationships associated with the closed portfolio. **(Vote: 7-0)**
4. Require that all hedging relationships associated with the closed portfolio be supported by all the assets in the closed portfolio. That is, all the assets in the closed portfolio must have a contractual maturity date after the latest partial-term hedge matures, and all financial assets in the closed portfolio must be prepayable by the earliest hedging relationship's maturity date. **(Vote: 7-0)**

The Board also decided dedesignation sequencing would not apply to anticipated breaches. **(Vote: 7-0)**

Fair Value Hedge Basis Adjustment Issues

For the existing last-of-layer model under current GAAP and the proposed multiple-layer model, the Board decided that it would:

1. Prohibit an entity from allocating the fair value hedge basis adjustment to the assets in the closed portfolio during an outstanding last-of-layer hedge. **(Vote: 7-0)**
2. Prohibit an entity from considering a last-of-layer fair value hedge basis adjustment on an outstanding hedge when determining an allowance under the current expected credit loss model. **(Vote: 7-0)**
3. Require a last-of-layer fair value hedge basis adjustment to be presented as a reconciling item in disclosures required by other areas of GAAP. **(Vote: 7-0)**
4. Require an entity to recognize and present the fair value hedge basis adjustment associated with an actual breach in the income statement based on how the assets that caused the breach were removed from the closed portfolio. **(Vote: 7-0)**

Next Steps

The Board directed the staff to draft a proposed Accounting Standards Update and distribute that staff draft for external review. Following external review, the staff will present to the Board any additional issues and an analysis of costs and benefits.

General Announcements: None