

MINUTES



MEMORANDUM

**To:** Board Members

**From:** Accounting for Financial Instruments Team

**Subject:** Minutes of March 31, 2021 Board Meeting on Fair Value Hedging—Portfolio Layer Method

**Date:** April 5, 2021

**cc:** Dawn 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: Fair Value Hedging—Portfolio Layer Method

Basis for Discussion:

FASB Memo No. 6, “External Review, Sweep Issues, Comment Period, and Cost-Benefit Analysis”

Length of Discussion: 9:00 a.m. to 9:45 a.m. EDT

Attendance:

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

Staff in charge of topic: Cahill

Other staff at Board table: Salo, Casas, Tice, and Holmstead

### **Type of Document and Timing Based on the Technical Plan:**

The Board met to deliberate sweep issues relating to the development of a proposed Accounting Standards Update on the fair value hedging portfolio layer method. The Board's technical plan calls for a proposed Accounting Standards Update to be issued in the second quarter of 2021.

### **Tentative Board Decisions:**

The Board discussed external review comments on a draft of a proposed Accounting Standards Update, sweep issues, and whether to issue a proposed Update. (Previously this project was titled "Hedging—Last-of-Layer Method.")

#### *Portfolio Layer Method—Multiple-Layer Model*

The Board decided the following related to the attributes of assets included in the closed portfolio:

1. All assets in the closed portfolio should have a contractual maturity date on or after the end of the earliest-ending hedge period of hedges associated with the closed portfolio. For each period hedged, the closed portfolio should include an amount of assets with a contractual maturity date on or after the end of the hedge period that is greater than the aggregate amount of the hedged layers. This would allow an entity to separate the closed portfolio into subgroups based on the contractual maturity dates of the assets in the closed portfolio. **(Vote 7-0)**
2. All assets in the closed portfolio should be or should become prepayable by the end of the latest-ending hedge period of hedges associated with the closed portfolio. **(Vote 7-0)**

The Board also decided that if the aggregate amount of the hedged layers currently exceeds the amount of the closed portfolio (that is, a breach has occurred), an entity would be required to sequence the order that hedging relationships would be discontinued based on the hedging relationship with the shortest remaining period until the hedged item's assumed maturity date. If there are multiple hedged layers with the same assumed maturity date, an entity would be required to discontinue hedging relationships using a "last-in, first-out" approach. **(Vote 7-0)**

#### *Transition*

The Board decided the following:

1. For any basis adjustments allocated to individual assets in the closed portfolio before the adoption of a final Accounting Standards Update, an entity would be required to reverse any previous effect of allocating those

basis adjustments by means of a cumulative-effect adjustment to the opening balance of retained earnings and the balance sheet line items (as appropriate) in the year of adoption. **(Vote 7-0)**

2. An entity would have the option to reclassify debt securities from held to maturity to available for sale in transition if the debt securities would qualify for hedge accounting under the portfolio layer method. The decision of which debt securities to reclassify should be made as of the date of adoption. **(Vote 7-0)**

#### *Analysis of Costs and Benefits*

The Board decided that it has received sufficient information and analysis to make an informed decision on the expected costs of the changes. **(Vote: 7-0)**

#### *Comment Period of the Proposed Accounting Standards Update*

The Board decided on a 60-day comment period for the proposed Accounting Standards Update. **(Vote 7-0)**

#### *Next Steps*

The Board directed the staff to draft a proposed Accounting Standards Update for vote by written ballot. **(Vote: 7-0)**

#### **General Announcements:**

None