MINUTES

FINANCIAL ACCOUNTING STANDARDS BOARD

MEMORANDUM

To:	Board Members		
From:	Accounting for Financial Instruments Team		
Subject:	Minutes of the March 8, 2017 Board Meeting on Accounting for Financial Instruments	**Date:**	March 14, 2017

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:	Accounting for Financial Instruments: Hedging
Basis for Discussion:	FASB Memo No. 24, "'Sub-Benchmark' Hedges and the Market Yield Test," and No. 25, "Fair Value Hedges of Prepayable Assets"
Length of Discussion:	9:00 a.m. to 9:35 a.m. (EST)

Attendance:

Board members present:	Golden, Kroeker, Botosan, Monk, Schroeder, Siegel, and L. Smith
Board members absent:	None
Staff in charge of topic:	Gabello
Other staff at Board table:	Cosper, Esposito, Kamhi, Um, Sangiuolo, Thornburg, Baumann, and Kinley
Outside participants:	None

<u>Type of Document and Timing Based on the Technical Plan</u>:

The Board met to discuss issues relating to the development of a final Accounting Standards Update addressing derivatives and hedging. The Board's technical plan calls for that document to be issued early in the third quarter of 2017.

<u>Tentative Board Decisions</u>:

The Board discussed the following issues in the proposed Accounting Standards Update, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*:

1. Should the "market yield" test in the proposed Update be retained or eliminated?

2. Should the "last of layer" approach be incorporated into the current hedge accounting project for fair value hedges of interest rate risk of prepayable assets?

The "Market Yield" Test

The Board decided that the market yield test in the proposed Update should be excluded from the final Update. This test would have required an entity to use the total contractual coupon cash flows in determining the fair value of the hedged item attributable to interest rate risk if, at hedge inception, the market yield of the hedged item is less than the benchmark interest rate. The result of this decision is that entities would be able to choose to use the total contractual coupon cash flows or the benchmark rate component cash flows determined at hedge inception for all fair value hedges of interest rate risk.

(Vote: 7-0)

The "Last of Layer" Approach

The Board decided to incorporate the last of layer approach into the current hedge accounting project for fair value hedges of interest rate risk of prepayable assets. The last of layer approach would allow an entity to designate as the hedged item the last dollar amount of either of the following:

1. A prepayable asset, such as a prepayable mortgage-backed security

2. A closed portfolio of prepayable assets, such as residential mortgage loans.

An entity would be able to assume that if prepayments occur, they are first applicable to the portion of the prepayable asset or to a closed portfolio of prepayable assets that is not part of the designated hedged layer. On each hedge effectiveness assessment date, an entity would use its expected performance of the asset(s) to determine if the amount remaining at hedge maturity is still expected to exceed or be equal to the last of layer.

In combination with the Board's previous decisions on partial term and benchmark coupon cash flow designations, an entity also would be able to apply the "similar assets" test to the closed portfolio qualitatively and only at inception of the hedging relationship.

(Vote: 7-0)

General Announcements: None