PURPOSE OF THE MEETING
1. At today’s meeting the Board will discuss the circumstances in which the amortized cost measurement attribute may be permitted for certain financial liabilities in the context of the Accounting for Financial Instruments (AFI) project.

BACKGROUND
2. This topic was previously discussed with the Board at two Education Sessions on August 12, 2009, and November 17, 2009, as well as at Board meetings on July 15, 2009, and November 24, 2009.

3. At the November 24, 2009 Board meeting, the Board discussed an amortized cost election for certain financial liabilities. The Board made no decisions at that meeting. The Board deferred further discussion on the issue until after addressing other issues relating the accounting for financial liabilities.

4. At the July 15, 2009 Board meeting, the Board discussed an amortized cost election for certain financial liabilities. The Summary of Decisions Reached section on the AFI project’s update page on the FASB’s website states the following:

Certain types of an entity’s own debt may be measured at amortized cost if the entity’s business strategy is to hold the financial liability for payment(s) of contractual cash flows rather than to sell or settle the financial liability with a third party and measuring the financial liability at fair value would create a measurement attribute mismatch.
5. The following is the staff’s interpretation of the general principles behind the Board’s decision related to the amortized cost election:

(a) The financial liability meets the conditions for the FV-OCI category as follows:

(i) The entity’s business strategy is to hold the financial liability with principal amounts for payment(s) of contractual cash flows rather than to settle the financial liability with a third party.

(ii) The financial liability is not a hybrid instrument that is required to be bifurcated under Subtopic 815-15 on embedded derivatives (originally issued as FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities).

(b) In addition to meeting the qualifying criteria for FV-OCI, measurement of the liability at fair value would create or exacerbate an accounting mismatch.

The election is optional and, therefore, does not preclude an entity from measuring financial liabilities at fair value.

6. The following paragraphs summarize the staff’s analysis of the meaning of creating or exacerbating a measurement attribute mismatch.

(a) A measurement attribute mismatch can be created in situations in which all of an entity’s assets are measured at cost and financial liabilities would be measured at fair value under the proposed guidance. In that case, a measurement attribute mismatch would be created upon transition to the new model. The staff understands that the amortized cost option was not intended to force an entity that is heavily concentrated in assets that are measured at amortized cost to measure financial liabilities at fair value and thereby create a significant accounting measurement attribute mismatch that otherwise would not exist.

(b) A measurement attribute mismatch can be exacerbated in situations in which some of an entity’s assets are measured at fair value and some at amortized cost. Upon initial transition to the proposed model, financial liabilities would be measured at fair value. Presumably, a measurement attribute mismatch existed previously but there would be a shift from amortized cost to fair value for financial liabilities.
AMORTIZED COST MEASUREMENT ELECTION

7. The staff has identified some implementation issues with the proposed approach, particularly related to the create or exacerbate criterion as discussed at the July 15, 2009 Board meeting. As a result, the staff has developed the following alternatives for determining the measurement attribute of financial liabilities.

Alternative 1: Amortized Cost Option Based on an Accounting Mismatch

8. This alternative is consistent with the Board’s discussion at the July 15, 2009 Board meeting. This alternative would permit certain financial liabilities that qualify for FV-OCI to be eligible for the election. Additionally, the election would be permitted if measuring the financial liability at fair value would create or exacerbate a measurement attribute mismatch.

9. This election would be available for financial liabilities that meet the following criteria:

   (a) The financial liability meets the conditions for the FV-OCI category as follows:

      (i) The entity’s business strategy is to hold the financial liability with principal amounts for payment(s) of contractual cash flows rather than to settle the financial liability with a third party.

      (ii) If a hybrid financial liability, the embedded derivative is clearly and closely related to the host contract.

   (b) Fair value measurement results in creating or exacerbating a measurement attribute mismatch between assets and liabilities.\(^1\)

10. If the Board decides to continue to pursue this alternative, the staff has identified several additional issues that it believes should be addressed (see Issues 1–4 below).

\(^1\) A measurement attribute mismatch does not refer to economic mismatches or duration mismatches of assets and liabilities. Instead, it refers to the difference in how assets and liabilities are measured for balance sheet purposes.
Alternative 2: Amortized Cost Option Based on Eligibility for FV-OCI Category

11. This alternative would provide an option to measure financial liabilities that qualify for FV-OCI at amortized cost. The alternative is available to all entities and all qualifying financial liabilities. It would broaden the eligibility of financial liabilities for which amortized cost could be elected. However, it would still require an entity to filter out those liabilities that are required to be classified as FV-NI either because the entity’s business strategy is not to hold the liability for payment or because it is a hybrid that is required to be bifurcated under Topic 815 on derivatives and hedging. This option does not segregate based on type of entity and does not require an entity to recognize changes in its own credit in profit and loss or other comprehensive income.

12. If the Board selects this alternative, which would broadly permit an entity to elect amortized cost measurement for liabilities that qualify for FV-OCI, it may decide to add qualifying criteria based on the following:

(a) The maturity of the liability
(b) Specific types of debt instruments.

Alternative 3: Amortized Cost Option for Most Financial Liabilities

13. This alternative would permit amortized cost measurement for most financial liabilities, with some exceptions. This alternative would not have any qualifying criteria. Therefore, most financial liabilities, regardless of whether the classification guidance would cause them to fall into the FV-NI or FV-OCI category, would be eligible to be measured at amortized cost. To preserve current practice, those financial liabilities that would not be permitted to be measured at amortized cost are derivative liabilities and obligations to return securities sold short (short sales).

14. This alternative does not require an entity to determine whether the liability could be classified as FV-OCI to qualify for amortized cost measurement. However, this alternative would require the Board to reconsider retaining the requirement to bifurcate hybrid financial liabilities such that the embedded derivative would continue to be measured at fair value and the host debt instrument would be
measured at amortized cost. If the Board were to go in this direction, this alternative would maintain current practice, which has an amortized cost measurement attribute for most financial liabilities with a fair value option and a requirement to bifurcate hybrid financial liabilities.

**Question 4 – Amortized Cost Measurement Election**

Does the Board wish to provide an option for an entity to measure financial liabilities at amortized cost?

If so, which alternative does the Board prefer for scoping the amortized cost option?

15. If the Board selects Alternative 1, the staff believes it would need to address the additional issues in the section below (Issues 1–4). If the Board selects Alternative 2 or 3, the staff believes it would need to address only follow-on Issues 1 and 2.

**Issue 1: Revocable or Irrevocable Nature of the Election**

16. This issue addresses whether the amortized cost election should be a revocable or an irrevocable election. That is, once amortized cost is elected for a specific liability, this issue addresses whether the measurement attribute could be changed to fair value or whether changing the measurement of the liability to fair value should not be permissible.

17. If the Board decides that the amortized cost election is irrevocable, the Board may wish to consider whether a tainting notion is appropriate when some instruments are settled before maturity. If no tainting provision is imposed and the election is available on a legally separate instrument basis, an entity would be permitted to retire half of a debt issuance that had at one time been completely measured at amortized cost while keeping the other half measured at amortized cost.

**Question 5 – Irrevocable Nature of Election/Tainting Provisions**

Does the Board believe the election should be irrevocable?

If yes, should a tainting notion be applied?
Issue 2: Application of the Business Strategy Criterion for the FV-OCI Category to Portfolios of Liabilities

18. The Board may wish to consider whether additional guidance related to the evaluation of the business strategy for liabilities is needed.

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<thead>
<tr>
<th>Question 6 – Application of the FV-OCI Criteria to Liabilities</th>
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<tr>
<td>Does the Board wish to provide additional guidance related to the evaluation of the business strategy for liabilities in considering whether they qualify to have fair value changes recognized in other comprehensive income?</td>
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Issue 3: Level of Evaluation of a Measurement Attribute Mismatch

19. This issue addresses the level of evaluation at which an entity must determine whether a measurement attribute mismatch exists. The Board could require or permit the evaluation using any of the following approaches:

(a) A consolidated entity level
(b) A reporting unit, business unit, or operating segment level.
   (i) A **reporting unit** is the level of reporting at which goodwill is tested for impairment. A reporting unit is an operating segment or one level below an operating segment.
   (ii) An **operating segment** is defined as a component of a public entity. An operating segment is a component of a public entity that has all of the following characteristics:
      (1) It engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same public entity).
      (2) Its operating results are regularly reviewed by the public entity’s chief operating decision maker to decide on resources to be allocated to the segment and assess its performance.
      (3) Its discrete financial information is available.
   (c) U.S. GAAP does not define the term **business unit**, but the Board could permit an entity to determine the level at which it would apply this option.
      (i) A specific identification approach.
Question 7 – Evaluation of Measurement Attribute Asymmetry

Should the evaluation of measurement attribute asymmetry be required on an entity-wide basis, business unit basis, operating segment basis, an instrument-by-instrument basis, or some other alternative?

Issue 4: Specific Identification or Linkage of Assets and Related Funding

20. The Board may wish to consider whether the measurement attribute asymmetry criterion could be considered met for either of the following situations:

(a) Financial liabilities that are issued for the purpose of financing the purchase of a specific asset or portfolio of assets that will be measured at amortized cost

(b) Financial liabilities that are contractually linked to specific assets, such that if the asset is sold the related liability must be settled, to be determined on an instrument level.

Question 8 – Specific Identification or Linkage of Assets and Related Funding

Should a financial liability that is issued for the purpose of financing the purchase of a specific asset that will be measured at amortized cost be considered as having met the measurement attribute mismatch criterion?
PURPOSE OF THE MEETING

1. The purpose of this meeting is to discuss the classification and measurement of loan commitments under the decisions reached in the Accounting for Financial Instruments (AFI) project.

BACKGROUND

2. The scope of the AFI project has been broadly defined to include all instruments that meet the definition of the term financial instrument. Based on scope decisions made to date, the staff believes that the FASB’s tentative model would include all commitments to originate and purchase loans because these are financial instruments. The model currently would apply to both potential lenders and potential borrowers of funds under loan commitments.

3. The Master Glossary in the FASB Accounting Standards Codification™ defines a loan commitment as follows:

   Loan commitments are legally binding commitments to extend credit to a counterparty under certain prespecified terms and conditions. They have fixed expiration dates and may either be fixed-rate or variable-rate. Loan commitments can either be either of the following:

   (a) Revolving (in which the amount of the overall line of credit is reestablished upon repayment of previously drawn amounts)

   (b) Nonrevolving (in which the amount of the overall line of credit is not reestablished upon repayment of previously drawn amounts).
Loan commitments can be distributed through syndication arrangements, in which one entity acts as a lead and an agent on behalf of other entities that will each extend credit to a single borrower. Loan commitments generally permit the lender to terminate the arrangement under the terms of covenants negotiated under the agreement.

4. This is not an authoritative or all-encompassing definition. The staff has identified some loan commitments that fall under this definition:
   
   (a) One-to four-family residential mortgage loan commitments
   
   (b) Loan commitments for multi-family properties, commercial real estate, construction, and land development
   
   (c) Commercial loan commitments (that is, commitments to extend credit to commercial or industrial entities)
   
   (d) Credit card lines (that is, commitments to extend credit to individuals or commercial or industrial entities through credit cards)
   
   (e) Home equity lines (that is, commitments to extend credit under revolving, open-end lines of credit secured by one-to four-family residential property)
   
   (f) Manufactured housing
   
   (g) Automobile financing
   
   (h) Sub-prime lending.

5. Under current U.S. GAAP, most loan commitments are off-balance sheet financial instruments. The following types of loan commitments are measured at fair value under current U.S. GAAP:
   
   (a) Loan commitments within the scope of Topic 815 on derivatives and hedging
   
   (b) Loan commitments issued by an entity following specialized industry practice that requires measurement at fair value
   
   (c) Loan commitments for which the fair value option is elected.
6. If the loan commitment is not measured at the fair value, the issuer must account for commitment fees and any potential losses. Subtopic 310-20 on nonrefundable fees and other costs provides guidance on loan commitment fees. Subtopic 450-20 on loss contingencies provides guidance for loss contingencies.

7. Several issues arise because loan commitments would be required to be measured at fair value under the proposed AFI model.

**ISSUE 1 – CLASSIFICATION OF LOAN COMMITMENTS**

8. Issue 1 addresses the classification of loan commitments under the proposed AFI model. Two alternatives have been identified.

   (a) **Alternative 1**: Loan commitments should be classified at fair value, with changes in fair value recognized in net income, independent of the related funded loan.

   (b) **Alternative 2**: Loan commitments should be classified in accordance with the business strategy related to the funded loan. Under this alternative, if the funded loan is to be recognized at fair value through net income (FV-NI), then the loan commitment would be classified as FV-NI. If the funded loan is to be recognized at fair value through other comprehensive income (FV-OCI), the loan commitment would also be classified as FV-OCI.

**Staff Recommendation**

9. The staff recommends Alternative 2. The staff believes that the unfunded commitment and the funded loan should be classified consistently. From a practical standpoint, the accounting is more streamlined and more understandable. For example, under Alternative 1, if the loan commitment is classified as FV-NI and the funded loan is classified as FV-OCI, the change in fair value of the loan commitment would be recognized in net income and the change in fair value of the related loan could be recognized in other comprehensive income, while these changes in fair value relate to a single lending transaction with a single borrower. Under Alternative 2, if a lender’s business strategy is to hold a loan for collection of
contractual cash flows, the recognition of changes in fair value of both the commitment and the loan would be in FV-OCI category.

### Issue 1: Classification of loan commitments

| Does the Board support Alternative 1 (all loan commitments classified as FV-NI regardless of the related funded loan) or Alternative 2 (classification of the loan commitment follows the business strategy for the classification of the funded loan)? |

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**ISSUE 2 – RECOGNITION OF COMMITMENT FEES**

10. This issue addresses the recognition of commitment fees under the alternatives discussed in Issue 1, including how those alternatives interact with the Board’s previous decisions on the recognition of transaction fees and costs and interest income on the drawn loans.

11. Commitment fees related to loans present a unique issue because the commitment is viewed as a separate financial instrument under the proposed AFI model, yet the commitment fee is generally accounted for under current U.S. GAAP as related to the activity of lending. The paragraphs below discuss the classification possibilities for loan commitments and related drawn loans and the effect on the recognition of the commitment fees.

**Fee Recognition if Both the Loan Commitment and Funded Loan Are Classified as FV-NI (This Can Occur under Either Issue 1, Alternative 1 or Issue 1, Alternative 2)**

12. Under this scenario, if both the loan commitment and the loan are classified as FV-NI, the commitment fee would not be separately recognized from other fair value changes of the loan commitment. This pattern of recognition of the fees differs from the Board’s previous decision that transaction costs and fees related to financial instruments classified as FV-NI would be recognized in net income at the date of initial recognition. The Board’s previous decision would suggest that the fees should be recognized in net income when the loan is funded; however, this is
not the case because the commitment fee relates to the loan commitment, which would be accounted for as a separate financial instrument under this project.

**Fee Recognition if Both the Loan Commitment and Funded Loan Are Classified as FV-OCI (This Can Occur under Issue 1, Alternative 2 only)**

13. Under this scenario, if the loan commitment and the funded loan are classified as FV-OCI, all changes in fair value of both the loan commitment and the funded loan would be recognized in other comprehensive income. The original commitment fee would not be separately recognized from other changes in fair value of the loan commitments. Once the loan is funded, the fees would be recognized in net income as a yield adjustment of the related loan consistent with Subtopic 310-20. This is consistent with the Board’s previous decision to preserve for financial instruments classified as FV-OCI the interest income calculation under current U.S. GAAP, including how the specific types of deferred origination fees and costs would affect interest income recognition.

**Fee Recognition if the Loan Commitment Is Classified as FV-NI and the Funded Loan Is Classified as FV-OCI (This Can Occur under Issue 1, Alternative 1 only)**

14. Under this scenario, the loan commitment is classified as FV-NI and the related loan is classified as FV-OCI. This raises the issue of the timing of recognition of fees on the loan commitment. Conceptually, the fees should be recognized in net income during the life of the loan commitment because the loan commitment is classified as FV-NI. However, because the funded loan is classified as FV-OCI, the Board’s previous decision to preserve the effective yield under Subtopic 310-20 for FV-OCI instruments suggests that the commitment fee should be deferred in other comprehensive income and recognized as a yield adjustment. To achieve this, the initial commitment fee must be accounted for separately from other fair value changes related to the loan commitment. For example, the fee could be recognized in other comprehensive income ratably during the life of the loan commitment while other changes in fair value of the loan commitment are recognized immediately in net income.
15. If Alternative 1 is selected in Issue 1, the following alternatives were identified for the scenario presented in the paragraph above:

(a) **Alternative 1**: Fees should not be recognized separately from other changes in fair value of loan commitments. Interest accruals on the drawn loans would be based on the stated interest rates.

(b) **Alternative 2**: Fees should be recognized over the commitment period into other comprehensive income. Interest accrual on the drawn loans would be based on the stated interest plus commitment fees consistent with Subtopic 310-20.

**Staff Recommendation**

16. If the Board selects Alternative 1 in Issue 1, the staff recommends Alternative 2 for Issue 2. The staff believes this is consistent with the Board’s previous decisions about interest income recognition related to FV-OCI instruments.

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<tr>
<th>Issue 2: Recognition of commitment fees</th>
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<tr>
<td>Question 1: Does the Board agree with the staff’s analysis of fee recognition?</td>
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<tr>
<td>Question 2: If Alternative 1 under Issue 1 is selected, for situations in which a loan commitment is classified as FV-NI and the loan is classified as FV-OCI, does the Board support Alternative 1 or Alternative 2?</td>
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**ISSUE 3 – POSSIBLE SCOPE EXCEPTIONS**

**Scope Exception for Potential Borrowers**

17. The scope of the AFI project includes loan commitments from the perspective of both the potential borrower and the potential lender. Topic 815 provides a scope exception for potential borrowers under loan commitments that are required to be
accounted for as derivatives. Therefore, under current U.S. GAAP, potential borrowers do not need to measure loan commitments at fair value under any circumstance.

18. The staff has identified two alternatives:
   (a) Alternative 1: Borrowers should account for loan commitments as financial instruments.
   (b) Alternative 2: Provide a scope exception for potential borrowers under loan commitments.

**Staff Recommendation**

19. The staff recommends Alternative 2. While the staff believes that, conceptually, the accounting for loan commitments by potential borrowers and potential lenders should be symmetrical, the staff believes it may be impracticable for many borrowers to measure loan commitments at fair value.

**Scope Exception for Certain Loan Commitment Types**

20. Based on the feedback collected from outreach performed on this issue, the staff noted that a scope exception could be considered for loan commitments that would have a fair value of zero or close to zero (excluding the service fees). For example, this could be the case in which the loan is funded at a market rate or the commitment period is short. However, the staff notes that this probably would not be the case for most loan commitments. Generally, even if the rate on the funded loan reflects current interest rates, the borrower’s credit spread may change or the lender’s cost of funding may change.

21. Conceptually, the staff believes that for potential lenders, all types of loan commitments should be included in the scope of this guidance. However, consideration could be given to a scope exception for lines of credit that are part of credit card arrangements. The staff believes the basis for this would be for practical reasons, considering the generally small balances, revolving nature, and volume of
these lines of credit. Credit card arrangements involve the extension of credit to borrowers, which are captured as receivables of the lender.

**Issue 3: Possible scope exceptions**

Question 1: For accounting for loan commitments by borrowers, does the Board support Alternative 1 (borrowers should account for loan commitments as financial instruments) or Alternative 2 (provide a scope exception for potential borrowers)?

Question 2: Does the Board want to provide a scope exception for any types of loan commitments?

**ISSUE 4 – ACCOUNTING FOR LOAN COMMITMENTS BY ENTITIES SUBJECT TO DELAYED TRANSITION**

22. At the February 24, 2010 Board meeting, the Board decided to provide a delayed effective date for nonpublic entities with less than $1 billion in total consolidated assets. The delay would be up to four years after the original effective date. In the interim period, the Board decided that those entities would measure at amortized cost in their financial statements any loans that would qualify for the FV-OCI category (and core deposits in the FV-OCI category).

23. This issue addresses the accounting for loan commitments to be applied by those entities during that interim period (that is, the four-year period between the original effective date and the delayed effective date).

24. The staff recommends that loan commitments issued or held by entities subject to the delayed transition period be accounted for under current U.S. GAAP during that period. The staff believes that to the extent the accounting for loans remains unchanged from current U.S. GAAP during the interim period, then the accounting for loan commitments should also remain unchanged.
ISSUE 5 – SCOPE INTERACTION WITH TOPIC 815

25. Because some, but not all, loan commitments are within the scope of Topic 815, the overlap between this project and Topic 815 must be addressed. Two alternatives about how to address this are as follows:

   (a) **Alternative 1**: Indicate that all loan commitments that are not in the scope of Topic 815 (based on either the existing scope exception or evaluation under the definition of a derivative) should be accounted for under this project.

   (b) **Alternative 2**: Create a scope exception in Topic 815 for all loan commitments. All loan commitments would then be accounted for based on their classification under this project.

26. Alternative 1 would require navigation through the literature to first determine if a loan commitment was in the scope of Topic 815 and, if not, then accounting for the loan commitment under the guidance in this project. This would result in two different potential sets of criteria for loan commitments.

27. Alternative 2 establishes a single model for loan commitments. However, the result would be that loan commitments currently in the scope of Topic 815 would no longer be subject to the presentation and disclosure requirements of that Topic, but would instead be subject to the presentation and disclosure requirements developed as part of this project.
28. The staff recommends Alternative 2. The staff believes Alternative 2 is simpler and will result in a more consistent model for all loan commitments.

**Issue 5: Scope interaction with Topic 815**

Does the Board support Alternative 1 (exclude all loan commitments from the scope of Topic 815) or Alternative 2 (create a scope exception from Topic 815 for loan commitments and have all loan commitments be subject to the scope of this project)?
PURPOSE OF THE MEETING
1. The purpose of this meeting is to discuss the effect of the Accounting for Financial Instruments (AFI) project on not-for-profit (NFP) entities, investment companies, and brokers and dealers in securities and possible scope exceptions for those industries.

REPORTING BY NFPs
2. At the February 24, 2010 Board meeting, the Board decided on a delayed transition date of four years after the initial effective date for nonpublic entities with less than $1 billion in consolidated total assets. The staff is asking the Board to clarify the definition of a nonpublic entity for this purpose.

3. The definition of a nonpublic entity in the FASB Accounting Standards Codification™ Master Glossary (originally issued as FASB Statement No. 123 (revised 2004), Shared-Based Payment) includes an entity that is a conduit bond obligor for conduit debt securities that are traded in a public market provided its equity securities are not traded in a public market. That definition states that a nonpublic entity is the following:

   Any entity other than one that meets any of the following criteria:

   a. Has equity securities that trade in a public market either on a stock exchange (domestic or foreign) or in an over-the-counter market, including securities quoted only locally or regionally
   b. Makes a filing with a regulatory agency in preparation for the sale of any class of equity securities in a public market

The staff prepares Board meeting handouts to facilitate the audience's understanding of the issues to be addressed at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect the views of the FASB or its staff. Official positions of the FASB are determined only after extensive due process and deliberations.
c. Is controlled by an entity covered by the preceding criteria.

An entity that has only debt securities trading in a public market (or that has made a filing with a regulatory agency in preparation to trade only debt securities) is a nonpublic entity.

4. However, the definitions of a nonpublic entity in the Master Glossary that were codified from other more recent standards (for example, the definitions from FASB Statements No. 168, The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles, No. 132 (revised 2003), Employers’ Disclosures about Pensions and Other Postretirement Benefits, and No. 126, Exemption from Certain Required Disclosures about Financial Instruments for Certain Nonpublic Entities) exclude an entity that is a conduit bond obligor for conduit debt securities that are traded in a public market.

5. One view is that the four-year deferral of the effective date for nonpublic entities with respect to certain loans and core deposits should apply to the reporting by some small- to mid-size NFPs and private companies whether or not they are conduit bond obligors for conduit debt securities that are traded in a public market. Others believe that the four-year deferral of the effective date would not significantly reduce the burden on those NFPs to determine the fair value of the loans subject to the deferral (such as long-term student loans) because the Board also decided to require fair value disclosures for these loans. Thus, the deferred effective date for those loans does not eliminate the need to determine their fair value. They also oppose any new scope exception or deferral that would eliminate the requirement to determine the fair value of the long-term loans of NFPs that are conduit bond obligors for conduit debt securities that are traded in a public market because they believe that the March 3, 2010 exemption for short-term loans is sufficient.
**Question 1 – Breadth of Effective Date Deferral for Nonpublic Entities**

Question – Did the Board intend that the four-year deferral of the effective date with respect to certain loans and core deposits of nonpublic entities with less than $1 billion in consolidated total assets apply to conduit bond obligors for conduit debt securities that are traded in a public market?

**Question 2 – NFPs within the Scope of the Proposed Update**

Question – If the Board’s response to Question 1 is no, does the Board wish to create a new deferral or scope exception to eliminate the requirement to determine the fair value of the long-term loans of NFPs and private companies that are conduit bond obligors for conduit debt securities that are traded in a public market?

**Scope Exception for Pledges Receivable**

6. Pledges receivable (contributions receivable) are a common NFP asset that presents a question about whether that asset should be subsequently measured at fair value, which would be based on an exit value pursuant to Topic 820 on fair value measurements and disclosures (originally issued as FASB Statement No. 157, *Fair Value Measurements*). Pledges receivable arise from a promise to give, which is a voluntary nonreciprocal transfer.

7. Some believe that a scope exception should be created for pledges receivable that arose from a voluntary nonreciprocal transfer to the reporting entity and that those receivables should be accounted for pursuant to the current guidance in Topic 958 on not-profit entities (originally issued as FASB Statement No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*). (Paragraphs 958-310-35-4 through 35-13 provide subsequent measurement guidance for contributions receivable that are not reported subsequently at fair value.)
Question 3– Scope Exception for Pledges Receivable

Question – Does the Board support the creation of a scope exception for pledges receivable that arose from a voluntary nonreciprocal transfer to the reporting entity?

Any Need for Other Scope Exceptions for NFPs

8. Most assets of NFPs are reported a fair value with the changes in fair value reported in the statement of activities as increases or decreases in unrestricted net assets (unless the use is temporarily or permanently restricted by explicit donor stipulation or by law). Additionally, most NFPs do not have a notion of other comprehensive income because they do not present a performance indicator distinct from the change in unrestricted net assets.

9. The staff recommends that the Board decide that NFPs should be included in the scope of the proposed Update on financial instruments, with the possible exception of the Board’s decision regarding pledges receivable that arose from a voluntary nonreciprocal transfer.

Question 4 – Applicability of Proposed Update to NFPs

Question – Does the Board believe that the proposed Update on financial instruments should apply to NFPs (with the possible exception of the Board’s decision regarding pledges receivable that arose from a voluntary nonreciprocal transfer)?

REPORTING BY INVESTMENT COMPANIES

10. This staff is presenting three approaches about the applicability of the proposed Update to financial instruments of brokers and dealers in securities:

(a) Approach A—A total scope exception from the requirements of the proposed Update. The guidance currently in Topic 946 on investment companies’ financial services (originally issued as AICPA Statement of Position 07-1, Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies) would apply.
(b) **Approach B**—The provisions of the proposed Update on financial instruments would apply to all investment companies.

(c) **Approach C**—The provisions of the proposed Update on financial instruments would *not* apply to all investment companies; however, all financial instruments of investment companies would be reported at fair value with the changes in fair value included in the net increase (decrease) in net assets resulting from operations.

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**Question 5 – Applicability of Proposed Update to Investment Companies**

**Question** – Which approach (A, B, or C) does the Board believe is appropriate for the accounting and reporting by investment companies?

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**REPORTING BY BROKERS AND DEALERS IN SECURITIES**

11. The staff is presenting three approaches regarding the applicability of the proposed Update to financial instruments of brokers and dealers in securities:

   (a) **Approach A**—A total scope exception from the requirements of the proposed Update. The current guidance in Topic 940 on brokers’ and dealers’ financial services (originally issued as AICPA Audit and Accounting Guide, *Brokers and Dealers in Securities*) would apply.

   (b) **Approach B**—The provisions of the proposed Update on financial instruments would apply to all brokers and dealers in securities.

   (c) **Approach C**—The provisions of the proposed Update on financial instruments would *not* apply to all investment companies; however, all financial instruments of brokers and dealers in securities would be reported at fair value with the changes in fair value included in net income.

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**Question 6 – Applicability of Proposed Update to Brokers and Dealers in Securities**

**Question** – Which approach (A, B, or C) does the Board believe is appropriate for the accounting and reporting by brokers and dealers in securities?