

MINUTES



To: Board Members

From: Fanning (ext. 296)

Subject: Minutes of the April 22, 2009 Board Meeting—Loan Loss Disclosures

Date: May 15, 2009

cc: FASB: Golden, Bielstein, Lott, Proestakes, Stoklosa, Maroney, C. Smith, Hood, Brickman, Mechanick, Glotzer, Fanning, Posta, Chookaszian, Gabriele, Sutay, Romas, Klimek, McGarity, Mayer, FASB Intranet; IASB: Leisenring

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 a final Statement, Interpretation, or FASB Staff Position.

Topics: Proposed disclosures related to the allowance for credit losses associated with loans and finance leases (financing receivables) and other issues such as effective date

Basis for Discussion: Board Memorandum No. 3

Length of Discussion: 9:00–9:20 a.m.

Attendance:

Board members present: Herz, Linsmeier, Seidman, Siegel, and Smith

Board members absent: None

Other Participants: None

Staff in charge of topic: Leverenz, Maroney, and Fanning

Other staff at Board table: Golden and Stoklosa

Summary of Decisions Reached:

The Board continued to discuss how to improve disclosures about the allowance for credit losses associated with loans and finance leases (financing receivables). The Board previously decided on a variety of enhanced disclosures at its March 18, 2009 meeting. At today's meeting, the Board made the following additional decisions:

1. A creditor would be required to disclose the fair value of financing receivables on a loan portfolio segment basis.
2. APB Opinion No. 28, *Interim Financial Reporting*, would be amended to require entities to provide the proposed disclosures in interim-period financial information.
3. An entity would be required to provide the disclosures beginning with the first interim or annual reporting period ending after December 15, 2009.
4. At initial adoption, the proposed Statement would not require an entity to provide the required disclosures for comparative periods. However, in periods after initial adoption, the proposed Statement would require an entity to provide comparative disclosures for comparative periods that ended after initial adoption.

The Board directed the staff to proceed to a draft of the proposed Statement for vote by written ballot. The comment period for the proposed Statement will be 60 days.

Objectives of Meeting:

The objective of the meeting was to discuss the remaining issues that need to be addressed before the staff may ask the Board's permission to draft a proposed Statement. That objective was met.

Matters Discussed and Decisions Reached:

FAIR VALUE OF FINANCING RECEIVABLES

Staff Recommendation

1. Mr. Leverenz stated that the staff recommends a creditor be required to disclose the fair value of financing receivables on a loan portfolio segment basis because this would represent the same level of disaggregation the Board agreed to for the allowance for credit loss disclosure and the loan rollforward schedule. Mr. Leverenz noted that at the April 2, 2009 Board meeting related to FASB Staff Position FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*,

further disaggregation of the existing fair value disclosures within the scope of FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, was discussed. It was noted that it would make sense to include this requirement within the specific financial instrument projects currently on the Board's agenda.

Board Vote

2. The Board voted in favor of the proposed disclosure requirement. All Board members agreed.

Board Comments

3. Ms. Seidman stated that detailed requirements on how to disaggregate disclosures should be included in the standard related to that item instead of prescribing the level of disaggregation in FASB Statement No. 157, *Fair Value Measurements*.
4. Mr. Linsmeier felt it is not clear how including this requirement in this proposed Statement interacts with the requirements in (and proposed requirements for) Statement 157.
5. Mr. Smith stated that Statement 157 should only refer to fair value in generalities, not specific asset classes.
6. Mr. Herz asked where this disclosure would be included in the other proposed disclosures that the Board discussed at its March 18 Board meeting. Mr. Leverenz responded that it could be included in the loan rollforward schedule. Mr. Linsmeier expressed that it could fit in several different places.

INTERIM AND ANNUAL VERSUS ANNUAL ONLY

Staff Recommendation

7. Mr. Leverenz stated that the staff recommends that the disclosures discussed at the March 18 Board meeting, as well as the disclosure of the fair value of financing receivables, be required to be disclosed for both interim and annual periods. Mr. Leverenz stated that the staff believes this will provide financial statement users with timely credit risk information needed to perform analysis on an entity's loan portfolio.

8. Additionally, Mr. Leverenz noted that the staff believes requiring these disclosures on an interim basis would not require preparers to spend substantial incremental time preparing the disclosures, as a majority of this information is already provided in quarterly regulatory filings and/or press releases.

Board Vote

9. The Board voted in favor of the staff's recommendation. All Board members agreed.

Board Comments

10. The Board did not have any significant comments related to this topic.

COMMENT PERIOD

Staff Recommendation

11. Mr. Leverenz stated that the staff recommends the proposed Statement be issued for a 60-day comment period. Mr. Leverenz expressed that the staff believes this will give constituents the necessary time to review the various disclosures and to provide valuable feedback.

Board Vote

12. The Board voted in favor of the staff's recommendation. All Board members agreed.

Board Comments

13. Mr. Linsmeier stressed the importance of having this Statement completed by year end. Mr. Linsmeier suggested that a 45-day comment period would ensure that the Board has adequate time for redeliberations. Mr. Leverenz stated that the staff plans to issue the proposed Statement for comment by the end of May 2009 and finalize the Statement by the end of September 2009.
14. Mr. Linsmeier asked if the staff believes any of the proposed disclosures will require entities to undergo significant system changes. Mr. Leverenz noted that most of this information is already provided or required and would be disclosed based on how management currently calculates the item, such as its allowance for credit losses. Ms.

Maroney added that the staff developed the disclosures in such a way as to minimize the amount of systems changes that would be needed.

15. Ms. Seidman stated that the external review should include some banks as well as a nonbank. Mr. Herz noted that the latter would help determine if the proposed disclosures are operational for entities that are not required to file call reports.

EFFECTIVE DATE AND TRANSITION

Staff Recommendations

16. Mr. Leverenz stated that the staff recommends the proposed disclosures be required for interim and annual reporting periods ending after December 15, 2009. Mr. Leverenz expressed that the staff believes it would be beneficial for the effective date to be before the proposed effective date for the proposed Statement, *Accounting for Transfers of Financial Assets*, and the proposed Statement, *Amendments to FASB Interpretation No. 46(R)*. This is because the proposed disclosures will provide enhanced credit risk information related to the financial assets included within the scope of those two proposed Statements.
17. Mr. Leverenz stated that the staff recommends that, at initial adoption, the proposed Statement not require an entity to provide the required disclosures for comparative periods. However, in periods after initial adoption, the staff recommends that the proposed Statement require an entity to provide comparative disclosures for comparative periods that ended after initial adoption.

Board Vote

18. The Board voted in favor of the staff's recommendations. All Board members agreed.

Board Comments

19. Mr. Golden observed that with the staff's recommended effective date and eventual disclosures for comparative periods, the disclosures will not initially be comparable because of the effect of the aforementioned proposed Statements to amend FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and*

Extinguishments of Liabilities, and FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*. Mr. Linsmeier responded that the proposed loan rollforward schedule should help alleviate those concerns.

DRAFTING THE PROPOSED STATEMENT

Staff Recommendation

20. Mr. Leverenz asked the Board for permission to begin drafting a proposed Statement.

Board Vote

21. The Board voted to grant the staff permission to begin drafting a proposed Statement.
All Board members agreed.

Board Comments

22. The Board did not have any significant comments related to this topic.

Follow-up Items:

The Board directed the staff to begin drafting a proposed Statement.

General Announcements:

None.