MINUTES

To:	Board Members
From:	Accounting for Financial Instruments Team
Subject:	March 31, 2010 Board Meeting Minutes: Accounting for Financial Instruments
Date:	April 29, 2010
cc:	Sutay

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: Impairments and Disclosures

Basis for Discussion: Memorandum 49

Length of Discussion: 8:30 to 11:40 a.m.

Attendance:

Board members present:	Herz, Linsmeier, Siegel, Seidman, and Smith Leisenring (IASB)
Board members absent:	None
Staff in charge of topic:	Sangiuolo (Impairment) and Kubic (Disclosures)
Other staff at Board table:	Ampofo, Golden, Homat, Inzano, Laungani, Maroney, Putnam, Roberge, Stoklosa, and Wilkins
Outside participants:	None

Type of Document and Timing Based on the Technical Plan:

The Board met to discuss issues relating to the development of an Exposure Draft of a proposed Accounting Standards Update on accounting for financial instruments.

The Board's technical plan calls for that document to be issued in the second quarter of 2010.

Summary of Decisions Reached:

Impairment

The Board discussed various aspects of the approach for recognition and measurement of credit impairment for financial assets for which certain changes in fair value may be recognized in other comprehensive income.

The Board discussed the recognition and measurement of credit impairment for financial assets assessed for impairment on an individual basis. The Board decided that, for such financial assets, even if the asset is not impaired based on an entity's assessment of the asset on an individual basis, recognition of a credit impairment may be appropriate based on loss experience for financial assets with similar characteristics. Therefore, the entity can recognize a credit impairment for such financial assets and measure the credit impairment based on a historical loss rate for financial assets having similar risk characteristics. If a financial asset is impaired based on an entity's assessment of the asset on an individual basis, the entity should recognize a credit impairment for that asset equal to the amount by which the amortized cost exceeds the present value of the cash flows the entity expects to collect. In that situation, the entity should not recognize any additional credit impairment for the financial asset in addition to the amount determined based on the net present value of cash flows not expected to be collected.

The Board also discussed the recognition and measurement of credit impairment for pools of homogeneous financial assets for which impairment is assessed and measured based on a historical loss rate. For such financial assets, the Board decided that the amount of credit impairment to be recognized in net income at the end of the reporting period during which the assets were originated or acquired should be determined by applying an aggregate loss rate to the pool balance. In subsequent periods, changes in the loss rate would generally result in the recognition of an additional credit impairment or the reversal of a credit impairment recognized in a previous period. (Vote 4-1)

Interest Income Recognition

The Board discussed the approach for recognition of interest income related to interest-earning financial assets based on previous decisions in the Accounting for Financial Instruments project. The Board agreed that the difference between the amount of the accrued interest receivable based on the contractual interest due and the amount of interest income accrued based on the application of the asset's effective interest rate to the amortized cost balance net of the allowance should be recognized as an increase to the allowance for credit losses.
(Vote 4-1)

Disclosures

The Board discussed disclosures about financial assets and financial liabilities within the scope of the project.

The Board decided that an entity would be required to provide disclosures that are disaggregated on the basis of the nature, characteristics, and risks of the financial instruments. The Board decided that the following disclosures would be required for each annual and interim reporting period:

For financial liabilities whose fair value changes are recognized in net income, an entity would disclose:

1. Qualitative information about the reasons for changes in fair value attributable to changes in the entity's creditworthiness (excluding the change in the price of credit)
2. How the gains and losses attributable to changes in instrument-specific credit risk related to the entity's change in creditworthiness were determined.

For financial instruments whose fair value changes are recognized in other comprehensive income, an entity would disclose:

1. Information about the contractual maturities of the financial instruments
2. For all purchased financial assets:
    a. Principal amount of the instrument
(Less) Purchaser's assessment of the discount related to credit
<u>(Plus or minus) Purchase premium or discount</u>
Amortized cost
    b. How the entity determined its assessment of the discount related to credit

3. For financial liabilities:
    a. Qualitative information about the reasons for changes in fair value attributable to changes in the entity's creditworthiness (excluding the change in the price of credit)
    b. How the gains and losses attributable to changes in instrument-specific credit risk related to the entity's change in creditworthiness were determined
4. For financial instruments that an entity sells or settles before their contractual maturity:
    a. The fair value of the financial instruments
    b. The gross realized gains and gross realized losses recognized in net income
    c. The basis on which the cost of an instrument sold was determined (that is, specific identification, average cost, or other method used)
    d. An explanation of the reasons for selling or settling the financial instruments
5. For financial instruments on which an entity recognizes interest income:
    a. The method used for calculating interest income on a pool of financial assets that are collectively assessed for impairment
    b. If interest income is calculated on a pool basis using a weighted-average interest rate, the amortized cost basis, allowance for credit losses, and weighted-average interest rate of each pool
6. For financial assets that have a negative yield and are not accruing interest, an entity would disclose the carrying amount and amortized cost.
7. For financial assets with an allowance account, an entity would disclose:
    a. The total allowance for credit losses by portfolio segment and in the aggregate, including the balance in the allowance at the beginning and end of each period, additions charged due to operations, additions from recognizing less interest than the gross interest contractually due, direct write-downs charged against the allowance, changes in methods and estimates, if any, and recoveries of amounts previously charged off.
    b. The factors considered in determining whether the financial asset is impaired.
    c. The inputs and assumptions used to measure credit impairments recognized in the performance statement. Examples of significant inputs include, but are not limited to, performance indicators of the underlying assets in the instrument (including default rates, delinquency rates, and percentage of nonperforming assets), collateral values, loan-to-collateral-value ratios, third-party

guarantees, current levels of subordination, vintage, geographic concentration, and credit ratings.

d. The cumulative amount of credit impairments by class and the related carrying amount and unpaid principal balance for financial assets.

e. The average carrying amount and the related amount of interest income recognized during each reporting period for impaired financial assets.

f. The amortized cost and fair value of financial assets, by class, that are written off.

For financial liabilities for which the amortized cost option is elected, an entity would disclose:

1. An explanation of the reasons why measuring the financial liability at fair value would create or exacerbate an accounting attribute mismatch.
2. The fair value of the financial liability.

For core deposit liabilities, an entity would disclose, disaggregated by class:

1. The calculation of average core deposit balances
2. The determination of the implied maturity period
3. The sources of the alternative funds rate used and why
4. The all-in-cost-to-service rate
5. A measurement uncertainty analysis.

The Board decided that for all financial instruments measured at fair value and classified as Level 3 in the fair value hierarchy except unquoted equity instruments, an entity would be required to comply with the measurement uncertainty disclosures decided by the Board in the joint fair value measurement project. For the measurement uncertainty disclosures, for each significant input, an entity would disclose the weighted-average input used to measure fair value in each interim and annual reporting period. However, the measurement uncertainty analysis disclosure would be required in annual reporting periods. For interim reporting periods, if the volatility of those inputs has significantly changed from the previous reporting period, the entity would provide the measurement uncertainty disclosures. If the volatility of those inputs did not significantly change from the previous fiscal year end, the entity would disclose such and would not be required to provide the measurement uncertainty disclosures.

The Board decided that entities would be required to disaggregate *FASB Accounting Standards Codification*™ Topic 820 recurring fair value disclosures by whether the changes in fair value for the financial instruments are recognized in net income or in other comprehensive income.

The Board decided for equity investments accounted for under the equity method of accounting, an entity should disclose management's assessment about how the investment is considered related to the entity's consolidated businesses for each interim and annual reporting period. Factors to consider when determining if the investee's operations are considered related to the entity's consolidated businesses include the line of business in which the entity and investee operate, the level of intra-entity transactions between the entity and the investee (for example, the investee provides procurement, production, or distribution functions), and the level of common management between the entity and investee. (Vote 5-0)

General Announcements: None.