MINUTES

To:	FASB Board Members
From:	Accounting for Financial Instruments Team
Subject:	January 25, 2011 Board Meeting Minutes: Accounting for Financial Instruments
Date:	March 10, 2011

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: Classification and Measurement

Basis for Discussion: Memorandum 75

Length of Discussion: 9:00 to 11:00 a.m.

Attendance:

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

Staff in charge of topic: Handy

Other staff at Board table: Stoklosa, Roberge, Farr, Sangiuolo, Farber, Keller, and Gagnon

Outside participants: None

Type of Document and Timing Based on the Technical Plan:

The Board met to discuss issues relating to the development of a final Accounting Standards Update addressing the accounting for financial instruments. The Board's technical plan calls for that document to be issued in the second quarter of 2011.

Summary of Decisions Reached:

In response to the overwhelming feedback received on the proposed Accounting Standards Update, the Board continued its discussion about whether to measure certain financial assets at amortized cost. Additional information is available in the summary of feedback received on the classification and measurement model in the proposed Accounting Standards Update.

At the December 21, 2010 meeting, the Board decided that both the characteristics of the financial asset and an entity's business strategy should be used as criteria in determining the classification and measurement of financial assets. At that meeting, the Board also tentatively decided to consider three categories for financial assets:

1. Fair Value–Net Income (FV-NI)—Fair value measurement with all changes in fair value recognized in net income

2. Fair Value–Other Comprehensive Income (FV-OCI)—Fair value measurement with qualifying changes in fair value recognized in other comprehensive income

3. Amortized Cost.

At this January 25, 2011 meeting, the Board discussed the business strategy criterion to determine which financial assets would be measured at amortized cost. The Board decided that a business activity approach should be used and that financial assets managed through a lending or customer financing activity that an entity holds for the collection of contractual cash flows should be measured at amortized cost.

The Board also decided that for all other business activities, financial assets should be measured at fair value. The Board decided that financial assets for which an entity's business activity is trading or holding for sale should be classified in the FV-NI category and that financial assets for which an entity's business activity is investing with a focus on managing risk exposures and maximizing total return should be classified in the FV-OCI category.

The Board requested the staff to refine which business activities would qualify for each classification and measurement category. Additionally, the Board requested the staff to evaluate how various types of financial assets would be classified on the basis of the refined criterion.

The Board also discussed the following:

1. Whether reclassifications between the three categories noted above should be permitted or required

2. Whether subsequent sales of financial assets classified at amortized cost would call into question or “taint” the remaining financial assets classified in the amortized cost category

3. Whether changes in fair value that have been recognized in other comprehensive income should be recognized in net income when such gains or losses are realized from sales or settlements.

The Board decided that reclassifications between categories of financial assets would not be permitted. However, the Board requested that the staff provide at a future meeting presentation or disclosure alternatives for financial assets originally classified in the amortized cost category that the entity subsequently sells. The Board also agreed to continue to discuss at future meetings disclosures for financial instruments that would provide transparency about the risks inherent in financial instruments and how an entity manages those risks. The Board decided that subsequent sales would not taint an entity’s financial assets classified at amortized cost.

The Board reaffirmed its decision in the proposed Accounting Standards Update to recognize any realized gains and losses from sales of financial assets classified as FV-OCI in net income when such gains or losses are realized from sales or settlements.
In addition, the Board and the IASB agreed to revisions that will enhance the guidance about accounting for credit impairments of loans and other financial assets managed in an open portfolio. In January 2011, the Boards intend to issue for comment a supplementary document to the FASB’s and the IASB’s Exposure Drafts about accounting for financial instruments.