MINUTES

Financial Accounting Standards Board

To:	FASB Board Members
From:	Accounting for Financial Instruments Team
Subject:	October 18, 2010 Afternoon Session Roundtable Minutes: Accounting for Financial Instruments
Date:	March 22, 2010

Topic: Proposed Accounting Standards Update: *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities—Financial Instruments (Topic 825) and Derivatives and Hedging (Topic 815)*

Length of Discussion: 1:00 to 4:00 p.m.

Attendance:

Outside Participants

Paul Beswick	Securities and Exchange Commission
Brandon Coleman	Mortgage Bankers Association
Jeff Geer	Office of Thrift Supervision
Jason Goldberg	Barclays Capital
Henry Huseby	Bristol-Myers Squibb
James Livingston	Zions Bancorporation
Craig Mense	CNA Insurance
Tom Panther	American Bankers Association
Sandra Peters	CFA Institute
Radha Radhakrishna	Manikay Partners
Bob Uhl	Deloitte and Touche LLP
Zoe Vonna Palmrose	U.S. Chamber of Commerce

FASB and IASB Participants

Russ Golden	FASB Board Member
Tom Linsmeier	FASB Board Member
Marc Siegel	FASB Board Member
Larry Smith	FASB Board Member
John Smith	IASB Board Member
Kevin Stoklosa	FASB Assistant Director
Sue Lloyd	IASB Associate Director
Upaasna Laungani	FASB Project Manager
Chris Roberge	FASB Project Manager
Ben Couch	FASB Practice Fellow
Tracy Farr	FASB Postgraduate Technical Assistant

CLASSIFICATION AND MEASUREMENT

Loan Assets

Most participants were opposed to measuring loan assets at fair value because they reasoned that cash flow is a more important metric to analyze these instruments and they are not managed on a fair value basis. Some participants noted that both fair value and cost provide useful information, and there are limitations to both measurements.

There was agreement among some participants on both sides of this debate that disclosure of fair value information and sensitivity analysis would provide useful information.

Preparers noted that there are operational concerns with recognizing fair value information in the financial statements and they believed that it would take longer to issue financial statements with this requirement. There was some discussion about why fair value information (especially level 3 measurements) placed such a burden on preparers as opposed to measuring impairment, which also includes estimates and assumptions. Preparers noted that fair value is an exit price notion that includes a market participant view that is not considered in impairment.

The participants who supported measuring loan assets at fair value noted that fair value provides investors with decision-useful information. By including fair value information on the face of the financial statements, these participants asserted that the information would be provided on a timely basis.

Some preparer participants disagreed that presenting fair value information on the face of financial statements would result in more timely information. One preparer noted that calculating and verifying fair value information can take up to 20 days and would push earnings releases back by up to 2 weeks.

Debt Securities

Participants agreed that classification of debt securities is problematic because they are generally liquid instruments yet management usually intends to hold them until maturity. Because of these characteristics, some participants supported measuring debt securities at fair value and classifying changes in fair value in other comprehensive income. These participants noted that this would not distort net income or mask an entity's core earnings. Many participants agreed that if an entity's business model is to trade debt securities, changes in fair value should be recognized in net income.

Equity Securities

Participants generally agreed that equity securities held for trading or other short-term gain should be measured at fair value with changes in fair value recognized in net income.

Participants generally agreed that all marketable securities should be measured at fair value. One constituent noted that measuring these instruments at the amount that will be realized provides better information because debt instruments have identifiable cash flows. However, equity securities do not have associated cash flows and, therefore, fair value makes more sense as the measurement attribute.

Some participants noted that their intent in purchasing some marketable securities is primarily strategic and supported classifying changes in fair value of securities held long term in other comprehensive income. These participants noted that their intent is to keep net income reflective of core earnings, and some of these investments would not be representative of the core earnings of a business.

Participants' views were varied on the measurement of private equity investments because of the difficulties in measuring fair value. Some suggested measuring these investments at cost and retaining an impairment model. Others noted that an impairment model for private equity investments is biased toward losses and does not give users an indication if these investments increase in value.

Financial Liabilities

Most participants stated that financial liabilities should be measured at cost, noting that these instruments are usually settled at their contractual amount and to recognize a different amount would be misleading. Some noted that the presence of a premium or discount would not result in a settlement at the contractual amount. Many participants supported retaining a fair value option for liabilities and expected entities to select the fair value option to minimize an accounting attribute mismatch.

Participants also noted that both cost and fair value provide useful information and would prefer that entities disclose fair value information.

One participant stated that bifurcation of embedded derivatives in hybrid financial liabilities should be retained.

IMPAIRMENT

Forecasting

The majority of participants supported allowing entities to forecast future events when measuring impairment. By disallowing forward-looking information, users will not get management's best estimation of losses. Participants suggested allowing management to review the foreseeable future or to use objectively verifiable information. These participants asserted that requiring a "freezing" of current economic conditions would not convey economic reality.

One constituent suggested that the Board include either in the final standard, or as supplemental information, examples to give preparers and auditors a better idea of what information can be considered when estimating impairment.

Many participants also noted that convergence with the IASB in this area is very important and further inconsistencies between U.S. GAAP and IFRS on impairment will be problematic for preparers and users.

Timing and Amount of Recognition

Some participants expressed concern about the proposed guidance to recognize losses upfront. These participants noted that this is not consistent with how losses are realized and would cause difficulties when creating a new pool of loans. One preparer participant would like the timing of recognition to be linked to the period that management reviews when estimating losses. This participant also noted that the main concerns for developing an impairment model should be that it is operational for preparers and understandable for users.

Many did not support the immediate recognition of lifetime credit losses but believed that the allowance should not ever be less than current incurred losses. However, other participants were concerned with the operational issues that would be introduced with a method of allocation of expected losses, especially in an open portfolio. One participant noted that for asset classes that have relatively short lives, an allocation method would not necessarily achieve the objective of earlier loss recognition.

All participants supported a single impairment model for both loans and debt securities. Some participants noted that the proposals seemed to have a different model for individual assets and pooled assets. Furthermore, the guidance related to evaluating an individual asset for impairment was confusing to some and many participants asked the Board to clarify its intent with this guidance.

Interest Income

The majority of participants did not support the interest income model as proposed because it co-mingles credit and interest and participants would prefer to see this information separate. Participants also were open to the inclusion of guidance on nonaccrual of interest.