MINUTES

To:	FASB Board Members		
From:	Accounting for Financial Instruments Team		
Subject:	October 18, 2010 Morning Session Roundtable Minutes: Accounting for Financial Instruments	**Date:**	March 14, 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: 9:00 a.m. to 12:00 p.m.

Attendance:

Outside Participants

Jerry Arcy	Duff and Phelps
Andreas Barckow	German Accounting Standards Board
Paul Beswick	Securities and Exchange Commission
Jack Ciesielski	Investors Technical Advisory Committee
Bret Dooley	JPMorgan Chase
Greg McGahan	PricewaterhouseCoopers
Matt Schroeder	Goldman Sachs
Josh Siegel	Stone Castle Partners
Kevin Spataro	Group of North American Insurance Enterprises
Tonya Stevens	Intel
Bob Storch	FDIC
Alan Zimmerman	Macquarie Securities

FASB and IASB Participants

Leslie Seidman	FASB Acting Chairperson
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 for some loan assets, there is no willing buyer and attempting to measure a fair value for these assets would be difficult and not provide valuable information.

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 it would take longer to issue financial statements with this requirement.

The participants who supported measuring loan assets at fair value noted that fair value should not be discounted because some participants were concerned with reliability and because it would provide investors with decision-useful information. By including fair value information on the face of the financial statements, some participants noted that the information would be subject to more rigorous review by preparers.

Debt Securities

Most participants supported a three category classification model similar to current U.S. generally accepted accounting principles (GAAP), with debt securities falling in the middle category of fair value measurement with changes in fair value recognized in other comprehensive income. The other categories would be trading, measured at fair value with changes recognized in net income; and held for collection, measured at amortized cost. To these participants, certain debt securities may not fit into a trading or held-for-collection category because the instrument is generally liquid (meaning fair value is relatively easy to calculate) but entities generally hold these instruments for longer periods. These characteristics meant that most participants would prefer these instruments to be classified in the other comprehensive income category. One investor noted that an entity's need for liquidity could also be used as a criterion and suggested that if an entity's financial position could demand liquidity through the sale of assets, that situation might override management's intent with respect to classification.

Additionally, these participants noted that there are tainting and reclassification issues associated with the current available-for-sale classification and are unsure how this would be solved under a three category model. One user participant noted that some financial institutions are reluctant to sell assets classified as held to maturity under current practice because they want to avoid tainting their portfolio. This user believes that this is a business consequence of the current accounting classification model and would like the new model to address this issue. Participants who supported allowing reclassifications would like it based on a change in a business strategy for particular instruments and believed this would be a rare occurrence.

There was some support for a two category classification model that would include trading and held-for-collection categories based on a desire to reduce complexity for classifying financial instruments.

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. Some participants supported classifying changes in fair value of private or nonmarketable equity securities in other comprehensive income.

One manufacturing entity noted that they make many equity investments in private entities with a strategic intent, not for a market return. They would prefer the changes in fair value of these investments not to be recognized in net income but rather in other comprehensive income. Some participants noted that outside the United States, entities frequently make equity investments in smaller private entities for strategic or business purposes. Therefore, they asserted that fair value of these investments would be hard to determine and would not provide investors with relevant information.

Those who supported measuring equity securities at fair value with fair value changes recognized in other comprehensive income generally stated that the current impairment model for equity securities was sufficient.

Financial Liabilities

Most participants did not support measuring financial liabilities at fair value. They noted that financial liabilities should be measured at amortized cost. However, most supported a fair value option for financial liabilities with changes in own credit recognized in other comprehensive income. Some of these participants recommended that entities should have a business reason for electing the fair value option, such as the potential to eliminate a measurement mismatch. Most of the participants supported an entity disclosing the reason it elected the option.

One participant stated that hybrid financial liabilities should be subject to embedded derivatives bifurcation requirements. Some participants asserted that entities currently elect the fair value option for hybrid financial liabilities to avoid operational issues with determining if the instrument needs to be bifurcated in accordance with *FASB Accounting Standards Codification*® Subtopic 815-15 on embedded derivatives (originally issued as FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities)*.

Impairment

Forecasting

The majority of participants supported allowing entities to forecast future events when measuring impairment. Participants suggested allowing management to review the foreseeable future or to use objectively verifiable information. These participants stated that requiring a "freezing" of current economic conditions would not convey economic reality. Auditability of forward-looking information was not considered a problem to those who supported this, and many cited the need for auditors to consider management's judgment in other areas.

Some participants noted that they would support disclosure of the inputs and assumptions management used when measuring impairment.

Timing and Amount of Recognition

Participants generally supported earlier recognition of expected losses; some supported recognizing losses expected to occur over a two to three year period. A user participant agreed with this view and noted that users would prefer to see management make an attempt to show when the majority of losses will occur on a portfolio, but acknowledged that it is difficult, if not impossible, to determine the exact timing of losses. A preparer participant noted that financial institutions do not know the specific timing of losses but have data that can reliably identify that losses will occur.

Some participants were concerned that recognition of losses expected to occur too far in the future would result in a mismatch in the income statement. One constituent noted that upfront recognition of losses may make more sense for an individual asset rather than an open portfolio of loans.

Some participants raised operational concerns about an approach that allocates losses over time and were unclear how the "good book/ bad book" approach being explored by the IASB would alleviate these problems.

Those participants who did not support an upfront recognition of losses noted that pricing includes a consideration of credit, and upfront recognition does not recognize that interest income is designed to offset credit losses over time.

Interest Income

The majority of participants did not support the interest income model as proposed because it co-mingles credit and interest. Most participants would prefer to see this information separate.