**MINUTES**

Financial Accounting Standards Board

| | |
|---|---|
| **To:** | FASB Board Members |
| **From:** | Accounting for Financial Instruments Team |
| **Subject:** | Joint Board Meeting Minutes: Accounting for Financial Instruments |
| **Date:** | March 29, 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: Impairment |
| Basis for Discussion: | FASB Agenda Reference- 79B<br>IASB Agenda Reference- Memo 2 |
| Length of Discussion: | 8:00 a.m. to 10:30 a.m. (EST) |

Attendance:

| | |
|---|---|
| Board members present: | FASB: Seidman, Golden, Linsmeier, Siegel, Buck, Schroeder, and Smith (Norwalk)<br><br>IASB: Tweedie, Cooper, Danjou, Engström, Finnegan, König, Pacter, Smith, Gomes, McConnell, Kalavacherla, Scott, Wei-Guo, McGregor and Yamada (London) |
| Board members absent: | None |
| Staff in charge of topic: | Lloyd (IASB) |
| Other staff at Board table: | Stoklosa, Roberge, Sangiuolo, Keller, Lark |
| Outside participants: | None |

**<u>Type of Document and Timing Based on the Technical Plan</u>:**

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.

**<u>Summary of Decisions Reached</u>:**

The IASB and the FASB discussed impairment accounting for purchased financial assets, including whether an impairment allowance should be established upon acquisition and the subsequent interest income recognition for purchased financial assets.

At the March 22nd meeting, the Boards discussed whether or not originated instruments and purchased instruments subject to impairment accounting should have consistent accounting models for interest income recognition and impairment. The Boards did not reach a decision on this question and asked the staff to prepare examples for further discussion.

The Boards continued their discussion on these issues using examples provided by the staff. The Boards tentatively decided that for purchased financial assets that do not have an explicit expectation of losses (that is, loans recognized in the "good book" upon acquisition) when analyzed at the individual asset level, even when acquired as part of a portfolio, an entity should account for impairment in the same way as for originated loans. Interest income for these assets would be recognized on the basis of contractual cash flows. This decision effectively aligns impairment accounting and interest income recognition for originated loans and "good" purchased financial assets (those that do not have an explicit expectation of losses at the individual asset level at acquisition). The Boards will determine the appropriate impairment accounting model for these loans in redeliberating the Supplementary Document, which is currently open for comment.

The Boards also discussed impairment accounting, including interest income recognition, for financial assets purchased where an explicit expectation of loss exists at the individual financial asset level (that is, where the loan goes into a "bad book" at acquisition). The Boards tentatively decided that interest income recognized should be based on expected collectible cash flows estimated at the date of acquisition (that is, accrete purchase price to expected cash flows). As a result of limiting the recognition of interest income for these credit deteriorated assets, a separate impairment expense would not be recognized at the date of acquisition.

The Boards noted that their decisions at this meeting were subject to future discussions on pending issues.  These issues include (1) determining how to differentiate purchased portfolios of financial assets into “good books” and “bad books” and the underlying accounting and (2) the necessity and application of “nonaccrual” guidance.

**The FASB and IASB vote on the above decisions was unanimous.**