

MINUTES



Financial Accounting
Standards Board

To: Board Members
From: Monsen (ext. 353)
Subject: Revised Minutes of February 3,
2011 Board Meeting: Clarifications
to the Accounting for Troubled Debt
Restructurings by Creditors
Date: May 2, 2011
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: Comment Letter Summary; Plans for Redeliberations

Basis for Discussion: FASB Memos No. 6 & 7

Length of Discussion: 10:00 a.m. to 11:40 a.m.

Attendance:

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

Board members absent: None

Staff in charge of topic: Gonzales

Other staff at Board table: Stoklosa, Glotzer, Monsen

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. The Board's technical plan calls for that document to be issued in the 1st quarter of 2011.

Summary of Decisions Reached:

The Board redeliberated issues raised by respondents to the proposed Accounting Standards Update, *Receivables (Topic 310): Clarifications to Accounting for Troubled Debt Restructurings by Creditors*, and decided that the project should continue according to the technical plan. The Board tentatively decided that:

1. Paragraph 310-40-15-8A of the proposed Update should be modified to specify that the absence of a market rate for a loan with risks similar to the restructured loan is an indicator of a troubled debt restructuring, but not a determinative factor, and that this provision should be enhanced by noting that the assessment should consider all of the modified terms of the restructuring, including any additional collateral or guarantees.
2. Insignificant delays in cash flows are a factor to consider when determining whether a concession has been granted, and that some additional implementation guidance should be added in the final Update to assist creditors in applying the guidance. The proposed Update indicated that such delays may be troubled debt restructurings, which led some respondents to believe that most or all delays would be considered troubled debt restructurings. The Board asked the staff to present specific examples to be included in the implementation guidance at a future meeting.
3. For purposes of determining whether a borrower is experiencing financial difficulty, creditors should consider whether default is "probable in the foreseeable future."
4. For public entities, the clarifications apply to all restructurings that occur on or after January 1, 2011. For nonpublic entities, the clarifications apply to all restructurings that occur on or after January 1, 2012.
5. For public entities, disclosures about troubled debt restructurings are effective for interim periods ending on or after June 15, 2011, and for annual periods beginning on or after December 15, 2010, consistent with the requirements of Accounting Standards Update No. 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. There will be no requirement to disclose troubled debt restructuring activity in interim

periods on an annual basis.

6. For nonpublic entities, the clarifications are effective for annual reporting periods ending on or after December 15, 2012.

The Board also affirmed its decisions that:

1. Creditors should be precluded from using the borrower's effective rate test in paragraph 470-60-55-10 to assess whether a restructuring is troubled.
2. Additional guidance on removing troubled debt restructurings from the related disclosures is not necessary. The Board also decided that it will consider troubled debt restructurings more comprehensively as part of the project on accounting for financial instruments.

General Announcements: The Board instructed the staff to perform outreach with users of financial statements and regulators of financial institutions to assess whether the proposed transition guidance is useful and appropriate. The results of this outreach will be presented in the next meeting.