MINUTES

Financial Accounting Standards Board

To:	FASB Board Members		
From:	Accounting for Financial Instruments Team		
Subject:	Board Meeting Minutes: Accounting for Financial Instruments: Classification and Measurement	**Date:**	May 26, 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: FASB Memorandums 89, 90, and 90A

Length of Discussion: 8:00 a.m. to 9:30 a.m. (EDT)

Attendance:

Board members present: FASB: Seidman, Golden, Linsmeier, Siegel, Buck, Schroeder, and Smith

Board members absent: None

Staff in charge of topic: Gagnon and Keller

Other staff at Board table: Roberge, Handy, and Stoklosa

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 2011.

Summary of Decisions Reached:

The Board discussed three topics related to the classification and measurement of financial instruments:

1. The practicability exception for nonmarketable equity securities held by nonpublic entities

2. Application of and criteria for the equity method of accounting

3. Impairment of equity method investments.

Practicability Exception for Nonmarketable Equity Securities Held by Nonpublic Entities

The Board decided at the March 2, 2011 meeting that for nonpublic entities, a practicability exception to fair value measurement should be provided for investments in nonmarketable equity securities. The practicability exception would permit nonmarketable equity securities to be measured at cost less any impairment plus upward adjustments in fair value being recognized if information about a change in price is observable.

At today's meeting, the Board discussed further refinement of the measurement of the practicability exception and tentatively decided that a nonpublic entity should use observable price changes in orderly transactions for the identical or similar financial asset with the same issuer to be used as an input for adjusting the carrying value of a nonmarketable equity security. When information about a change in price is observable, a nonpublic entity would be required to adjust the carrying value of a nonmarketable equity security upward or downward.

The Board also discussed the impairment model for a nonmarketable equity security accounted for under the practicability exception. The Board tentatively decided that an entity would apply a single-step approach in which an entity assesses qualitative factors (that is, impairment indicators) to determine whether it is more likely than not the fair value of a nonmarketable equity security is less than its carrying amount (that is, an impairment exists). If an impairment exists, an impairment loss would be recognized in earnings equal to the entire difference between the investment's carrying value and its fair value.

The Board voted unanimously on the above issues.

Application of and Criteria for the Equity Method of Accounting

The Board discussed the application of and criteria for the equity method of accounting. The Proposed Update included a “related operations” criterion, in addition to the “significant influence” criterion, which exists under current GAAP, for qualifying for the equity method of accounting. The Board decided to retain only the “significant influence” criteria, which leaves the criteria for the equity method of accounting unchanged from current GAAP. The Board directed the staff to consider the implications of additional qualitative disclosures around investments accounted for under the equity method.

The Board voted unanimously for retaining only the “significant influence” criteria.

The Board discussed whether an unfettered fair value option should be allowed for equity method investments. The Board decided that a fair value option is not permitted for equity method investments. The Board also directed the staff to provide alternatives for criteria under which equity investments of “significant influence” must be carried by an entity at fair value through net income. The staff will present these alternatives to the Board at a future meeting.

The Board voted 4-3 to require fair value for certain equity method investments.

Impairment of Equity Method Investments

The Board discussed alternatives for the impairment of equity method investments. The Board decided that an entity would apply a single-step approach in which an entity assesses qualitative factors (that is, impairment indicators) to determine whether an equity method investment is impaired. The Board directed the staff to draft language that would allow for a single impairment model to be applied to both marketable and nonmarketable equity method investments.

The Board voted unanimously for a single step impairment approach.

The Board decided that an entity that accounts for an investment under the equity method may not reverse previously recognized impairment losses.

The Board voted 6-1 against reversals.