MINUTES

To:	FASB Board Members
From:	Accounting for Financial Instruments Team
Subject:	July 20, 2011 Joint Board Meeting: Accounting for Financial Instruments: Impairment
Date:	July 20, 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 – Memorandums 100 and 101 IASB – Agenda Paper 7A and 7B
Length of Discussion:	8:30 a.m. to 11:00 a.m.

Attendance:

Board members present:	FASB: Seidman, Golden, Linsmeier, Siegel, Smith, Buck, and Schroeder (London) IASB: Hoogervorst, Cooper, Danjou, Engstrom, Finnegan, Konig, Pacter, Smith, Gomes, Kalavacherla, Scott, Wei-Guo, Mackintosh, Ochi, and McConnell (London)
Board members absent:	None
Staff in charge of topic:	Strekenbach (IASB) and Glen (IASB)
Other staff at Board table:	Feygina, Stoklosa, and Lloyd
Outside participants:	Keller and Sangiuolo

<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 2011.

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

The Boards continued to discuss a "three-bucket" expected loss approach for the impairment of financial assets. The guiding principle of the approach is to reflect the general pattern of deterioration of credit quality of financial assets. The Boards discussed approaches to classify and transfer financial assets between the buckets. The Boards agreed to pursue an approach based on credit risk management systems, recognizing that credit risk management is a holistic process that includes evaluating all available information.

The Boards considered whether an "absolute" or a "relative credit risk" model should underpin the transfer and classification of financial assets between the three buckets and decided to develop the relative credit risk model. The overall objective of this approach is to reflect the deterioration or improvement in the credit quality of financial assets, thus making the maximum use of credit risk management practices. Under this approach, all originated and purchased financial assets would initially start in Bucket 1 and will move into Bucket 2 and Bucket 3 as credit loss expectations deteriorate, affecting the uncertainty in collectability of cash flows. Loans acquired at a discount because of credit losses were outside the scope of the discussion and will be addressed at a future meeting.

The IASB voted 14-1 to pursue the above approach. The FASB voted 5-2 to pursue the above approach.

The Boards also discussed the measurement of expected loss on financial assets in Bucket 1. The Boards agreed to keep the calculation of the impairment allowance for Bucket 1 operationally simple and directed the staff to explore approaches that would calculate the allowance using 12 or 24 months' worth of losses expected to occur. The Boards also agreed that the calculation of 12 months' worth of expected losses in Bucket 1 will be based on an *annual* rather than an *annualized* loss rate (that is, looking to the losses that are expected to occur in the next 12 months, as opposed to calculating the lifetime losses and dividing by the number of years remaining). The same logic would apply to a calculation based on 24 months.

The IASB voted 13-2 and the FASB voted unanimously to pursue an "operationally simple" approach to the measurement of the expected loss for Bucket 1. The FASB and IASB voted unaniumously to base the Bucket 1 measurement of expected losses on an annual loss rate rather than an annualized loss rate.