MINUTES

To:	FASB Board Members		
From:	Accounting for Financial Instruments Team		
Subject:	December 14 and 15, 2011 Joint Board Meeting—Accounting for Financial Instruments: Impairment	**Date:**	December 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 117–123
	IASB: Agenda Papers 6–6F
Length of Discussion:	December 14: 9:30 a.m. to 2:00 p.m. EST
	December 15: 4:00 a.m. to 10:20 a.m. EST
Attendance:	
Board members present:	FASB: Seidman, Buck (December 14), Linsmeier, Schroeder, Siegel (December 14), and Smith (London); Golden (Norwalk)
	IASB: Hoogervorst, Mackintosh, Cooper, Danjou, Engstrom, Finnegan, Gomes, Kalavacherla, Konig, McConnell, Ochi, Pacter, Scott, Smith, and Wei-Guo (London)
Board members absent:	FASB: Buck and Siegel (December 15 only)
Staff in charge of topic:	IASB: Streckenbach and Glen
	FASB: Kane and Sangiuolo
Other staff at Board table:	FASB: Stoklosa and Handy
	IASB: Lloyd
Outside participants:	FASB: Keller and Watanabe

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

The Board met to discuss issues relating to the development of an Accounting Standards Update addressing the accounting for financial instruments. The Board has not yet determined the expected timing of the next due process document.

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

The IASB and the FASB discussed the "three-bucket" impairment model being developed, most notably the measurement of the allowance balance in Bucket 1, the transfer principle out of Bucket 1 (that is, when a financial asset would qualify for recognition of lifetime expected losses), a few pervasive issues, and the application of the model to loans and publicly traded debt instruments (for example, debt securities).

Bucket 1

The Boards had previously decided that all financial assets would begin in Bucket 1. At this meeting, the Boards decided that the objective and measurement in Bucket 1 would be to capture the losses on financial assets expected in the next twelve months. The losses being measured are not just the cash shortfalls over the next twelve months; rather, they are the lifetime expected losses on the portion of financial assets on which a loss event is expected over the next twelve months. The losses expected to occur in the next twelve months will be determined using all reasonable and supportable information, including forward-looking data, which will reflect updated estimates as expectations change.

Fifteen IASB members and six FASB members were in favor of the decisions.

Recognition of Lifetime Losses

The Boards had previously decided that financial assets would move out of Bucket 1 based on deterioration in credit quality, and that lifetime expected losses would be recognized for financial assets in Bucket 2 and Bucket 3. At this meeting, the Boards decided that recognition of lifetime losses would be appropriate (that is, financial assets would move out of Bucket 1) when there has been a more than insignificant deterioration in credit quality since initial recognition and the likelihood of default is such that it is at least reasonably possible that the contractual cash flows may not be recoverable. The Boards asked the staff to develop examples to illustrate that the "reasonably possible" criterion differs from how it may currently be interpreted in GAAP (particularly in the U.S.), and primarily refers to when the likelihood of cash shortfalls begins to increase at an accelerated rate as an asset deteriorates.

Regarding the recognition of lifetime expected losses, the Boards also decided that the assessment of whether recognition of lifetime expected credit losses is required should be based on the likelihood of not collecting all the cash flows as opposed to incorporating the "loss given default" in the assessment.

Fourteen IASB members and seven FASB members were in favor of the decision.

In addition, the Boards decided to include within the model indicators (including those presented at the meeting) for when the recognition of lifetime expected losses may be appropriate.

Fifteen IASB members and seven FASB members were in favor of the decision.

Pervasive Issues—Grouping of Assets

The Boards decided that the following principles should be utilized for aggregating financial assets into groups for purposes of evaluating whether transfer out of Bucket 1 is appropriate:

1. Assets are to be grouped on the basis of "shared risk characteristics."
2. An entity may not group financial assets at a more aggregated level if there are shared risk characteristics for a subgroup that would indicate whether recognition of lifetime losses is appropriate.
3. If a financial asset cannot be included in a group because the entity does not have a group of similar assets, or if a financial asset is individually significant, an entity is required to evaluate that asset individually.
4. If a financial asset shares risk characteristics with other assets held by the entity, an entity is permitted to evaluate those assets individually or within a group of financial assets with shared risk characteristics.

Fifteen IASB members and seven FASB members were in favor of the decision.

Pervasive Issues—Bucket 2 and Bucket 3

The Boards discussed the difference between Bucket 2 and Bucket 3. The Boards decided that the difference between the two buckets would be based on the unit of evaluation. Bucket 2 will contain financial assets evaluated on a group basis, while Bucket 3 will contain financial assets evaluated on an individual basis.

Nine IASB members and seven FASB members were in favor of the decision.

Application of the Credit Deterioration Model to Publicly Traded Debt Instruments (for example, Debt Securities) and Loans

In applying the credit deterioration model to debt securities, the Boards decided against a bright-line presumption resulting in recognition of lifetime expected losses (for example, when the fair value of a security is less than a specified percentage of the amortized cost basis for some specified time period). In applying the credit deterioration model to commercial and consumer loans, the Boards decided against a presumption resulting in recognition of lifetime expected losses based on an explicit bright line (for example, reaching a particular delinquency status).

Fifteen IASB members and five FASB members were in favor of the decision (two FASB members were absent from this portion of the meeting).

Next Steps

The Boards directed the staff to consider whether application of the principle for recognition of lifetime expected losses and the indicators could be applied to financial assets that may improve in credit quality such that a move from Bucket 2 to Bucket 1 would be appropriate (that is, whether the model would be symmetrical). The Boards also directed the staff to further analyze the practical application of the expected value objective.