MINUTES

To:	FASB Board Members
From:	Accounting for Financial Instruments Team
Subject:	January 27, 2012 Joint Board Meeting—Accounting for Financial Instruments: Impairment
Date:	January 30, 2012

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: Memorandum 126
IASB: Agenda Paper 8

Length of Discussion: 9:20 a.m. to 11:00 a.m. EST

Attendance:

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

IASB: Hoogervorst, Mackintosh, Cooper, Danjou, Engstrom, Finnegan, Gomes, Kalavacherla, McConnell, Ochi, Pacter, Scott, Smith, and Wei-Guo (London)

Board members absent: none

Staff in charge of topic: Sangiuolo

Other staff at Board table: FASB: Stoklosa, Handy, Kane, and Watanabe
IASB: Lloyd, Friedhoff, Streckenbach, Glen, and Cancro

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 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 FASB and the IASB discussed how the three-category (or "bucket") impairment model should be applied to purchased financial assets with an explicit expectation of credit losses at acquisition. In addition, the Boards discussed other aspects of the accounting for such purchased financial assets.

Application of the Impairment Model

Unlike the approach for all other originated and purchased financial assets, purchased financial assets with an explicit expectation of credit losses at acquisition would not be included in Bucket 1 at acquisition. That is, purchased financial assets with an explicit expectation of credit losses at acquisition would be initially included in Bucket 2 or 3.

For these purchased financial assets, no impairment loss would be recognized at acquisition. The purchase discount would be accreted from the purchase price to the expected cash flows. Any subsequent unfavorable change in expected cash flows would be recognized as an impairment loss on the basis of changes in expected lifetime loss from period to period.

Fourteen IASB members and seven FASB members voted in favor of these decisions.

Scope

The Boards discussed the scope of purchased financial assets that would be initially included in Bucket 2 or Bucket 3 and for which accretion from the purchase price to the expected cash flows would be required. The staff asked the Boards for direction on whether "purchased financial assets with an explicit expectation of credit losses at acquisition" was intended to capture the same population of purchased financial assets within the scope of existing IFRSs and/or U.S. GAAP standards under which accretion to expected cash flows is currently required.

The IASB asked the IASB staff to proceed with keeping the scope similar to the scope of existing IFRSs. However, the FASB requested the FASB staff also to explore an approach whereby the scope of purchased financial assets would include assets that, since origination, have experienced a more than insignificant deterioration in credit quality and it is at least reasonably possible that all or some of the contractual cash flows may not be collected.

Favorable Changes in Expectations after Acquisition

The Boards discussed the accounting for favorable changes in expectations regarding collectibility of cash flows after acquisition. The Boards tentatively decided that, for purchased financial assets with an explicit expectation of credit losses, favorable changes in cash flows expected to be collected would be recognized immediately in profit or loss as an adjustment to the impairment expense. This would be the case even if such changes exceeded the amount of impairment losses recognized by the acquiring entity in previous periods or the amount of the allowance for credit losses.

Nine IASB members and seven FASB members voted in favor of this decision.

Presentation in the Statement of Financial Position of Purchased Financial Assets with an Explicit Expectation of Credit Losses at Acquisition

The Boards tentatively decided that purchased financial assets with an explicit expectation of credit losses would be presented in the statement of financial position at the transaction price without presentation of an allowance for expected contractual cash shortfalls implicit in the purchase price. However, disclosure would be required of the expected contractual cash shortfalls implicit in the purchase price. The Boards instructed the staff to evaluate appropriate disclosure to facilitate analysis and comparability of originated and acquired portfolios. This disclosure might include discrete information for acquired portfolios that allows users to reconcile from (1) the "gross" amounts of contractual cash flows, excluding the discount not attributable to credit, to (2) the net carrying amount.

Fourteen IASB members and seven FASB members voted in favor of this decision.