MINUTES

To: FASB Board Members

From: Accounting for Financial Instruments Team

Subject: February 28, 2012 Joint Board Meeting—Accounting for Financial Instruments: Classification and Measurement

Date: February 29, 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: Classification and Measurement

Basis for Discussion: FASB: Memorandums 132 and 133
IASB: Agenda Papers 5 and 5A

Length of Discussion: 8:37 a.m. to 9:57 a.m. EST

Attendance:

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

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

Board members absent: None

Staff in charge of topic: Feygina

Other staff at Board table: FASB: Stoklosa, Handy, Shah, and Laungani

IASB: Lloyd and Lark

Outside participants: None

Type of Document and Timing Based on the Technical Plan:

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.

Summary of Decisions Reached:

The FASB and the IASB discussed the cash flow characteristics assessment and held an informational session on the business model assessment in their respective classification and measurement models for financial instruments.

Cash Flow Characteristics Assessment

Solely Principal and Interest

The Boards tentatively decided that a financial asset could be eligible for a measurement category other than fair value through profit or loss (FVPL) (depending on the business model within which it is held) if the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (P&I). Interest is consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time. Principal is understood as the amount transferred by the holder on initial recognition.

1. If the financial asset contains a component other than principal and the consideration for the time value of money and the credit risk of the instrument, the financial asset must be measured at FVPL.

2. If the financial asset only contains components that are principal and the consideration for the time value of money and the credit risk of the instrument but the relationship between them is modified (for example, the interest rate is reset and the frequency of reset does not match the tenor of the interest rate), an entity must consider the effect of the modification when assessing whether the cash flows on the financial asset are still consistent with the notion of solely P&I.

3. If the financial asset only contains components that are principal and the consideration for the time value of money and the credit risk of the instrument and the relationship between them is not modified, the financial asset could be eligible for a measurement category other than FVPL (depending on the business model within which it is held).

For the IASB, this is a minor amendment to the application guidance in IFRS 9, *Financial Instruments*. For the FASB, this is an amendment to the cash flow characteristics assessment in the tentative classification and measurement model. All IASB and FASB members voted in favor of the proposed approach.

Contingent Cash Flows

The Boards tentatively decided that a contractual term that changes the timing or amount of payments of principal and interest would not preclude the financial asset from a measurement category other than FVPL as long as any variability only reflects changes in the time value of money and the credit risk of the instrument.

In addition, the Boards tentatively decided that the probability of contingent cash flows that are not solely P&I should not be considered. Financial assets that contain contingent cash flows that are not solely P&I must be measured at FVPL. An exception, however, will be made for extremely rare scenarios.

For the IASB, this does not represent a change to IFRS 9. For the FASB, the guidance will be included as part of the contractual cash flow characteristics assessment. All IASB and FASB members voted in favor of the decision.

Assessment of Economic Relationship between P&I

The Boards tentatively decided that an entity would need to compare the financial asset under assessment to a benchmark instrument that contains cash flows that are solely P&I to assess the effect of the modification in the economic relationship between P&I. An appropriate benchmark instrument would be a contract of the same credit quality and with the same terms, except for the contractual term under evaluation.

The Boards tentatively decided that if the difference between the cash flows of the benchmark instrument and the instrument under assessment is more than insignificant, the instrument must be measured at FVPL because its contractual cash flows are not solely P&I.

For the IASB, this is a minor amendment to the application guidance in IFRS 9. However, the IASB believes that this change will address application issues that have arisen in the application of IFRS 9. For the FASB, the guidance will be included as part of the contractual cash flow characteristics assessment. Thirteen

IASB members and all FASB members voted in favor of the decision. One IASB member voted against.

Prepayment and Extension Options

The Boards tentatively decided that a prepayment or extension option, including those that are contingent, does not preclude a financial asset from a measurement category other than FVPL as long as these features are consistent with the notions of solely P&I.

For the IASB, this does not represent a change to IFRS 9. For the FASB, the guidance will be included as part of the contractual cash flow characteristics assessment. All IASB and FASB members voted in favor of the decision.

Business Model Assessment

In an informational session, the FASB and the IASB discussed the business model assessment in their respective classification and measurement models for financial instruments. No decisions were made.

At a future meeting, the Boards will discuss whether and how they may be able to reduce differences between their business model assessments.