

MINUTES



Financial Accounting
Standards Board

To: FASB Board Members

From: Accounting for Financial Instruments Team

Subject: August 29, 2012 FASB Board Meeting—Accounting for Financial Instruments: Classification and Measurement

Date: September 5, 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: Memorandum 184R

Length of Discussion: 8:32 a.m. to 9:48 a.m. EDT

Attendance:

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

Board members absent: None

Staff in charge of topic: Shah

Other staff at Board table: Stoklosa, Kane, Zimmerman, Laungani, Green, and Rayfield

Outside participants: Feygina (IASB)

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's technical plan calls for an exposure document to be issued during the fourth quarter of 2012.

Summary of Decisions Reached:

The Board discussed the application guidance related to the business model assessment for the classification and measurement of financial assets at amortized cost, fair value through other comprehensive income (FVOCI), and fair value through net income (FVNI). The Board decided that the application guidance to be included in the proposed standard should incorporate the following concepts to assist stakeholders in applying the principle associated with the business model assessment for classification and measurement of financial assets.

Amortized Cost

1. Examples of types of business activities that would be consistent with an amortized cost classification.
2. Sales of financial assets as a result of significant credit deterioration would be consistent with the objective of amortized cost classification if such sales are to maximize the collection of contractual cash flows through sales rather than through cash collection. Sales for other reasons should be very infrequent.
3. Sales of financial assets that result from managing the credit exposure due to concentration of credit risk would not be consistent with the primary objective of amortized cost classification.

FVOCI

1. Examples of types of business activities that would be consistent with an FVOCI classification.
2. Financial assets classified at FVOCI may be held for collection of contractual cash flows or sold. That is, management may hold the assets for an unspecified period of time or sell the assets to meet certain objectives.

FVNI

1. Financial assets that are held for sale at initial recognition would not be consistent with the primary objective of amortized cost or FVOCI classification.

The Board also tentatively decided to clarify that financial assets are classified at initial recognition into one of the three classification categories on the basis of an entity's business model. The classification of financial asset(s) is determined at origination or acquisition by the entity's key management personnel on the basis of how the asset(s) will be managed together with other financial assets within a distinct business model. An entity may have more than one business model for managing its financial assets.

Seven Board members voted in favor of this decision.