MINUTES

To:	FASB Board Members
From:	Accounting for Financial Instruments Team
Subject:	October 10, 2012 FASB Board Meeting—Accounting for Financial Instruments: Impairment
Date:	October 15, 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: Memorandums 202 –204 and 206

Length of Discussion: 8:11 a.m. to 8:55 a.m. EDT

Attendance:

Board members present:	Seidman, Buck, Golden, Linsmeier, Siegel, Smith, and Schroeder
Board members absent:	None
Staff in charge of topic:	McKinney and Rayfield
Other staff at Board table:	Stoklosa, Shah, and Tyson
Outside participants:	Kapsis and Streckenbach (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 modifications, reexposure of the revised credit impairment model, and transition guidance for the Current Expected Credit Loss (CECL) model.

Modifications

The Board tentatively decided to move forward with the CECL model without broadly reconsidering the accounting for modifications. Accordingly, the Board tentatively decided that the CECL model would apply to all modified instruments, where expected credit losses are (1) based on the expected shortfall in contractual cash flows (that is, the contractual cash flows to which the entity is legally entitled post-modification) and (2) discounted using the effective interest rate post-modification. To accomplish this, the guidance in Subtopic 310-40 would be amended to require that when an entity executes a troubled debt restructuring, the cost basis of the asset should be adjusted so that the effective interest rate post-modification is the same as the original effective interest rate, given the new series of contractual cash flows. The basis adjustment would be calculated as the amortized cost basis before modification less the present value of the modified contractual cash flows (discounted at the original effective interest rate).

Seven Board Members voted in favor of these decisions.

Reexposure of the Revised Credit Impairment Model

The Board tentatively decided to reexpose the model in an exposure draft separate from its tentative proposals on the classification and measurement of financial instruments.

Seven Board Members voted in favor of this decision.

Transition Guidance for the CECL Model

The Board tentatively decided that the transition method for the CECL model would be a cumulative-effect approach. Under this approach, an entity would record a cumulative-effect adjustment to its statement of financial position as of the beginning of the first reporting period in which the guidance is effective. The Board also discussed transition disclosures. The Board tentatively decided that upon transition an entity should disclose the following:

1. The nature and reason for the change in accounting principle, including an explanation of the newly adopted accounting principle.
2. The method of applying the adoption.
3. The effect of the adoption on any line item in the statement of financial position, if material, as of the beginning of the first period for which the guidance is effective. Presentation of the effect on financial statement subtotals is not required.
4. The cumulative effect of the change on retained earnings or other components of equity in the statement of financial position as of the reporting period that immediately precedes the effective date.

Seven Board Members voted in favor of these decisions.