MINUTES

To:	FASB Board Members		
From:	Accounting for Financial Instruments Team		
Subject:	October 19, 2012 FASB Board Meeting—Accounting for Financial Instruments: Classification and Measurement	**Date:**	October 24, 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 198
Length of Discussion:	10:30 a.m. to 11:23 a.m. EDT
Attendance:	
Board members present:	Seidman, Buck, Golden, Schroeder, Siegel, and Smith
Board members absent:	Linsmeier
Staff in charge of topic:	Zimmerman
Other staff at Board table:	Stoklosa, Shah, Kane, Laungani, Weiner, Or, Green, and Tyson
Outside participants:	Cancro (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 in the first half of 2013.

Summary of Decisions Reached:

Scope of the Tentative Model for the Classification and Measurement of Financial Instruments

The Board decided that the tentative model applies to all financial instruments (as that term is defined in the FASB Codification Master Glossary) unless explicitly excluded. The Board decided that the following instruments will be excluded from the scope of the tentative model:

1. Derivative instruments that are in the scope of Topic 815, Derivatives and Hedging
2. Regular-way security trades
3. Transactions accounted as normal purchases and normal sales
4. Certain contracts that are not traded on an exchange
5. Instruments that are impediment to sale accounting
6. Certain contracts involving an entity's own equity
7. Leases
8. Residual value guarantees
9. Registration payment arrangements
10. A loan commitment and a financial standby letter of credit held by a potential borrower
11. All financial guarantee contracts
12. All financial instruments within the scope of Topic 944; *except* for the following that would be *included* in the scope of the tentative model:
    a. Mortgage loans that are subject to Subtopic 944-310, Financial Services—Insurance—Receivables (presentation guidance in Section 944-310-45 would also be retained)
    b. All financial instruments that are subject to Subtopic 944-320, Financial Services—Insurance—Investments—Debt and Equity Securities

  c. All financial instruments that are subject to Subtopic 944-325, Financial Services—Insurance—Investments—Other (presentation guidance in Section 944-325-45 would also be retained)
  d. All financial instruments that are subject to Subtopic 944-470, Financial Services—Insurance—Debt.

13. A holder's investment in a life insurance contract included in the scope of Subtopic 325-30, Investments—Other—Investments in Insurance Contracts
14. All pledges receivable and payable resulting from voluntary nonreciprocal transfers of not-for-profit entities
15. All financial instruments included in the scope of the following Topics:
    a. Topic 710, Compensation—General
    b. Topic 712, Compensation—Nonretirement Postemployment Benefits
    c. Topic 715, Compensation—Retirement Benefits
    d. Topic 718, Compensation—Stock Compensation
    e. Topic 960, Plan Accounting—Defined Benefit Pension Plans
    f. Topic 962, Plan Accounting—Defined Contribution Pension Plans
    g. Topic 965, Plan Accounting—Health and Welfare Benefit Plans.
16. Financial instruments included in the scope of Topic 810, Consolidation, including:
    a. An equity investment in a consolidated subsidiary
    b. A noncontrolling interest in a consolidated entity's financial statements
    c. Interest in a variable interest entity that the entity is required to consolidate.
17. All financial instruments included in the scope of Topic 323, Investments—Equity Method and Joint Ventures. (However, Topic 323 would be amended to require that an equity method investment that is held-for-sale at initial recognition would be measured at fair value, with changes in fair value recognized in net income.)
18. Acquisition-related contracts and contingent consideration arrangements included in the scope of Topic 805, Business Combinations.

Five Board members voted in favor of the decision to exclude from the scope of the tentative model all financial instruments currently included in the scope of Topic 944 except for mortgage loans subject to Subtopic 944-310 and all financial instruments subject to Subtopics 944-320, 944-325, and 944-470.

Seven Board members voted in favor of the decision to exclude from the scope of the tentative model the remainder of the instruments listed above (one vote by proxy).

The Board also discussed the following items as part of the scope of the tentative model:

Instruments Specifically within the Scope of the Tentative Model

1. All interest-only strips and principal-only strips
2. Certain contracts to purchase securities that are physically settled and are currently included in the scope of Topic 320, Investments—Debt and Equity Securities
3. Forward contracts and purchased options to purchase or sell equity securities that are currently excluded from the scope of Topic 320 and Topic 815. The practicability exception for the measurement of nonmarketable equity securities under the tentative model would be extended for these securities.
4. Structured notes in the scope of Subtopic 320-10
5. Financial instruments included in the scope of Subtopic 340-30, Other Assets and Deferred Costs—Insurance Contracts that do Not Transfer Insurance Risk.

Seven Board members voted in favor of this decision (one vote by proxy).

Amendments to the Scope of Topic 815

The Board decided that Topic 815 should be amended to exclude all loan commitments, interest-only strips, and principal-only strips.

Seven Board members voted in favor of this decision (one vote by proxy).

Loan Commitments for Lenders (Issuer)

The Board decided that the potential lender (the issuer) should measure a loan commitment on the basis of whether the likelihood that the exercise of the loan commitment is:

1. *Greater than remote*—the issuer would measure the loan commitment consistent with the measurement of the underlying loan under the tentative model.
    a. If the underlying loan is measured at fair value, the loan commitment would be measured at fair value.
    b. If the underlying loan is measured at amortized cost, any commitment fees received would be deferred and recognized over the life of the funded loan as an adjustment of yield in accordance with existing guidance in Subtopic 310-20, Receivables—Nonrefundable Fees and Other Costs.

2. *Remote*—the issuer would recognize any commitment fees received as fee income over the commitment period in accordance with existing guidance in Subtopic 310-20.

Seven Board members voted in favor of this decision (one vote by proxy).

Hybrid Financial Instruments

The Board decided that hybrid financial instruments are within the scope of the tentative model and that bifurcation and separate accounting analysis (as required under Topics 815, 470, Debt, and 480, Distinguishing Liabilities from Equity) for hybrid financial liabilities should be performed before applying the tentative model. Therefore, a financial liability host or a debt-equity hybrid instrument recognized as a financial liability in its entirety or as having a separately reportable financial liability component would be subject to the tentative model.

Seven Board members voted in favor of this decision (one vote by proxy).

Hybrid Nonfinancial Instruments

The Board decided to eliminate the fair value option in paragraph 825-10-15-4(f) that permits an entity to measure at fair value (with changes in fair value recognized in earnings) a host financial instrument resulting from the separation of an embedded nonfinancial derivative from a nonfinancial hybrid instrument under paragraph 815-15-25-1. Rather, a hybrid nonfinancial asset that contains an embedded derivative that requires bifurcation and separate accounting under Subtopic 815-15 would be measured in its entirety at fair value (with changes in fair value recognized in earnings).

For a hybrid nonfinancial liability, an entity would apply the bifurcation and separate accounting requirements in Subtopic 815-15 and account for the embedded derivative in accordance with Topic 815. The financial host that results from separation of the nonfinancial embedded derivative would be subject to the tentative model. At initial recognition, an entity would be permitted to initially and subsequently measure the hybrid nonfinancial liability at fair value (with changes in fair value recognized in earnings) if after applying Subtopic 815-15 an entity determines that an embedded derivative that requires bifurcation and separate accounting exists.

Six Board members voted in favor of this decision. One Board member was not present.