MINUTES

Financial Accounting Standards Board

To:	FASB Board Members
From:	Accounting for Financial Instruments Team
Subject:	October 3, 2012 FASB Board Meeting—Accounting for Financial Instruments: Classification and Measurement
Date:	October 23, 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: Memorandums 169A, 196, and 197

Length of Discussion: 9:45 a.m. to 11:14 a.m. EDT

Attendance:

- Board members present: Seidman, Buck, Golden, Linsmeier, Schroeder, Siegel, and Smith
- Board members absent: None
- Staff in charge of topic: Green and Tyson
- Other staff at Board table: Shah, Stoklosa, Kane, and Zimmerman
- Outside participants: Wiesner and Cancro (IASB)

<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's technical plan calls for an exposure document to be issued in the first half of 2013.

<u>Summary of Decisions Reached</u>:

Assessment of the Need for a Valuation Allowance against Deferred Tax Assets Related to Debt Instruments Classified and Measured at Fair Value though Other Comprehensive Income (FVOCI)

The Board decided that an entity should evaluate the need for a valuation allowance on deferred tax assets related to debt instruments classified and measured at FVOCI separately from its evaluation of other deferred tax assets.

Five Board Members voted in favor of this decision.

Scope Considerations Related to Entities within Specialized Industries

The Board decided to *retain* the following specialized guidance in the relevant industry Topics in the *FASB Accounting Standards Codification*:

Broker Dealers:

1. Initial measurement guidance on (a) fail-to-deliver assets, (b) fail-to-deliver liabilities, (c) financial-restructuring transactions, and (d) proprietary trading securities
2. Subsequent measurement guidance on (a) securities underlying suspense accounts, (b) shares that a broker-dealer is firmly committed to purchase but that have not yet been subscribed to by customers, (c) investments in the form of equity or financing provided to another entity in connection with financial-restructuring transactions, and (d) proprietary trading securities.

Investment Companies

1. Subsequent measurement guidance on investments in debt and equity securities
2. Measurement guidance on (a) dividends and interest, (b) investment securities sold, (c) capital stock sold, and (d) other accounts receivable, such as receivables from related parties, including expense

reimbursement receivables from affiliates and variation margin on open futures contracts.

Four Board Members voted in favor of retaining the specialized initial measurement and subsequent measurement guidance on proprietary trading securities for broker-dealers. Seven Board Members voted in favor of the remainder of the above decisions.

The Board decided to *supersede* the following specialized guidance in the relevant industry Topics in FASB Accounting Standards Codification. Therefore, such entities would apply the tentative model for classification and measurement to such instruments:

Depository and Lending Institutions

1. Initial measurement guidance on debt-equity swaps
2. Subsequent measurement guidance on (a) debt-equity swaps and (b) short sales of securities.

Mortgage Banks

1. Initial measurement guidance on (a) affiliated transactions and (b) loans held as long-term investments
2. Subsequent measurement guidance on (a) loans held for sale and (b) securitizations of mortgage loans held for sale.

Seven Board Members voted in favor of these decisions.

The Board also decided that investment companies and brokers and dealers in securities would not be allowed to use the proposed practicability exception to fair value measurement for investments in nonmarketable equity securities.

Four Board Members voted in favor of this decision.

The Board also affirmed its previous decision to exempt nonpublic investment companies and nonpublic brokers and dealers in securities from the requirement to provide the fair value of financial instruments classified and measured at amortized cost, either parenthetically on the face of the financial statements or in the notes to the financial statements.

Five Board Members voted in favor of this decision.

Presentation and Disclosure

The Board decided that equity method investments held for sale would be presented in a separate line item on the face of the statement of financial position.

Seven Board Members voted in favor of this decision.

The Board agreed to require the following disclosures in notes to financial statements:

Financial Instruments Measured at Amortized Cost:

1. An entity with financial instruments that are measured at amortized cost for which fair value information is presented parenthetically on the statement of financial position would disclose the following about the fair value information:
    a. The level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2, or 3).
    b. For fair value measurements categorized within Level 3 of the fair value hierarchy, quantitative information about the significant unobservable inputs used in the fair value measurement.
    c. For fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation technique(s) and the inputs used in the fair value measurement.
    d. A description of the changes in the method(s) and significant assumptions used to estimate the fair value of financial instruments, including the reason(s) for making the change, if any, during the period.
    e. For fair value measurements categorized within Level 3 of the fair value hierarchy, a description of the valuation processes used by the reporting entity (including, for example, how an entity decides its valuation policies and procedures and analyzes changes in fair value measurements from period to period).
2. An entity that has sold financial assets that were carried at amortized cost would disclose the following:
    a. The net carrying amount of the asset(s) sold
    b. The net gain or loss in accumulated other comprehensive income for any derivative that hedged the forecasted acquisition of the amortized cost security
    c. The related realized gain or loss on asset(s) sold
    d. The circumstances leading to the decision to sell the asset(s)
    e. The amortized cost basis, fair value, and the unrealized gain or loss on asset(s) subsequently identified for sale.

Seven Board Members voted in favor of these decisions.

Financial Assets Classified at FVOCI

1. An entity with financial assets classified at FVOCI would disclose the following:
    a. The amortized cost basis of the assets
    b. Fair value
    c. Total gains for financial assets with net gains in accumulated other comprehensive income
    d. Total losses for financial assets with net losses in accumulated other comprehensive income.
2. An entity that has sold financial assets classified at FVOCI would disclose:
    a. The proceeds from sales and the gross realized gains and gross realized losses that have been recognized in earnings as a result of those sales
    b. The amount of the net unrealized holding gain or loss on assets for the period that has been included in accumulated other comprehensive income and the amount of gains and losses reclassified out of accumulated other comprehensive income into earnings for the period.

Seven Board Members voted in favor of these decisions.

Reclassification of Financial Assets Due to a Change in Business Model

1. For financial assets that have been reclassified because of a change in an entity's business model:
    a. The date of reclassification.
    b. A detailed explanation of the reason for the change in business model and a qualitative description of its effect on the entity's financial statements.
    c. The amount reclassified into and out of each category.

Seven Board members voted in favor of this decision.

Other Disclosures

1. Entities that apply the practicability exception to fair value measurement for investments in nonmarketable equity securities would disclose the following
    a. The carrying amount of equity securities that the entity concludes are nonmarketable
    b. The amount of any impairments and upward and downward adjustments, both annual and cumulative

   c. As of the date of the most recent statement of financial position, additional information (in narrative form) that provides sufficient information to allow financial statement users to understand the quantitative disclosures and the information that the entity considered (both positive and negative) in reaching the carrying amounts and upward or downward adjustments.

2. An entity with nonrecourse financial liabilities would disclosure:
   a. Qualitative information about the relationship between financial assets and the nonrecourse financial liabilities that will be used to settle them, and the line items where they are reported.
   b. The carrying amounts of the financial liabilities and the related financial assets that will be used to settle the nonrecourse financial liabilities.

3. Own credit risk (applicable to financial liabilities for which an entity has elected the fair value option):
   a. The amount of change, during the period and cumulatively, in the fair value of the financial liability that is attributable to changes in the instrument specific credit risk
   b. How the gains and losses attributable to changes in instrument specific credit risk were determined
   c. If a liability is settled during the period, the amount (if any) presented in other comprehensive income that was realized in net income at settlement.

Seven Board Members voted in favor of these decisions.