MINUTES

To:	FASB Board Members
From:	Accounting for Financial Instruments Team
Subject:	October 17, 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: Memorandums 199 through 201

Length of Discussion: 10:50 a.m. to 12:22 p.m. EDT
2:30 p.m. to 2:37 p.m. EDT

Attendance:

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

Board members absent: None

Staff in charge of topic: Shah, Green, and Tyson

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

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:

The Board discussed the following topics and made the decisions as noted below.

Measurement of Certain Investments Held for the Purpose of Doing Business

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

Investments in Agricultural Cooperatives of Farmers

1. Recognition guidance in paragraphs 905-325-25-1 and 25-2
2. Initial measurement guidance in paragraphs 905-325-30-1 through 30-3
3. Subsequent measurement guidance in paragraphs 905-325-35-1 and 35-2.

Certain Exchange Memberships of Brokers and Dealers in Securities

1. Initial measurement guidance in paragraphs 940-340-30-1 and 30-2
2. Subsequent measurement guidance in paragraphs 940-340-35-1 and 35-2.

Federal Home Loan Bank and Federal Reserve Bank Stock of Banks

1. Subsequent measurement guidance in paragraph 942-325-35-1.

National Credit Union Share Insurance Fund Deposits of Credit Unions

1. Subsequent measurement guidance in paragraph 942-325-35-4.

Seven Board members voted in favor of this decision.

The Board also decided that the proposed impairment model for nonmarketable equity securities (as previously deliberated by the Board) would be applicable for the following financial assets:

1. Investments in exchange memberships recognized as *ownership* interests that are held by brokers and dealers within the scope of Topic 940, Financial Services—Brokers and Dealers
2. Investments in Federal Home Loan Bank and Federal Reserve Bank stock that are held by depository and lending institutions within the scope of Topic 942, Financial Services—Depository and Lending.

Seven Board members voted in favor of this decision.

Required Disclosures for Core Deposit Liabilities

The Board decided that a public entity would not be required to disclose a present value amount for demand deposit liabilities in the notes to the financial statements. However, a public entity would be required to provide, on the basis of an appropriate level of disaggregation by significant types of core deposit liabilities, the following disclosures on an annual basis:

1. The core deposit liability balance
2. The implied weighted-average maturity period
3. The estimated all-in-cost-to-service rate.

Four Board members voted in favor of this decision.

The Board decided that a nonpublic entity would not be required to provide disclosures about its core deposit liabilities.

Four Board members voted in favor of this decision.

Applying the Contractual Cash Flow Characteristics Assessment to Beneficial Interests in Securitized Financial Assets

The Board decided to provide implementation guidance, consistent with IFRS 9, *Financial Instruments*, on the application of the contractual cash flow characteristics assessment to beneficial interests in securitized financial assets.

As such, the Board decided that a beneficial interest in a securitized financial asset has contractual cash flow characteristics that are payments of principal and interest on the principal amount outstanding, if all of the following three conditions are met:

1. The contractual terms of the beneficial interest being assessed for classification (without looking through to the underlying pool of financial instruments) give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (for example, the interest rate on the beneficial interest is not linked to a commodity index).

2. The underlying pool of financial instruments has the following cash flow characteristics:

    a. The underlying pool must contain one or more instruments that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

    b. The underlying pool may also include instruments that either:

        i. Reduce the cash flow variability of the instruments in (2)(a) above and, when combined with the instruments in (2)(a), result in cash flows that are solely payments of principal and interest on the principal amount outstanding (for example, an interest rate cap or floor or a contract that reduces the credit risk on some or all of the instruments in (2)(a)).

        ii. Align the cash flows of the tranches of beneficial interests with the cash flows of the pool of underlying instruments in (2)(a) to address differences in and only in any of the following:

            1. Whether the interest rate is fixed or floating

            2. The currency in which the cash flows are denominated including inflation in that currency

            3. The timing of the cash flows.

    (An entity must look through until it can identify the underlying pool of instruments that are creating [rather than passing through] the cash flows. This is the underlying pool of financial instruments.)

3. The exposure to credit risk in the underlying pool of financial instruments inherent in the tranche of beneficial interest is equal to or lower than the exposure to credit risk of the underlying pool of financial instruments (for example, this condition would be met if the underlying pool of instruments were to lose 50 percent as a result of credit losses and under all circumstances the tranche would lose 50 percent or less).

The Board also decided, consistent with IFRS 9, that if the holder of a beneficial interest in securitized financial assets cannot assess the above criteria at initial recognition, the beneficial interest must be measured at fair value with all changes in fair value recognized in net income. Furthermore, if the underlying pool of financial instruments can change after initial recognition in such a way that the pool may not meet the criterion in 2 above, then the beneficial interest must be measured at fair value with all changes in fair value recognized in net income.

Seven Board members voted in favor of these decisions.