

## MINUTES



**To:** FASB Board Members

**From:** Accounting for Financial Instruments Team

**Subject:** November 20, 2013 Joint Board Meeting—Accounting for Financial Instruments: Classification and Measurement

**Date:** December 3, 2013

*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:** **FASB:** Memorandums 248(R)–251(R)  
**IASB:** Agenda Papers 6–6C

**Length of Discussion:** 8:31 a.m. to 10:48 a.m. EST

**Attendance:**

Board members present: **FASB:** Golden, Buck, Smith, Kroeker, Linsmeier, Schroeder, and Siegel

**IASB:** Hoogervorst, Mackintosh, Cooper, Danjou, Edelmann, Engström, Finnegan, Gomes, Kabureck, Kalavacherla, McConnell, Ochi, Scott, Suh, Tokar, and Zhang

Board members absent: **FASB:** None

**IASB:** None

Staff in charge of topic: **FASB:** Gupta and Milone

**IASB:** Wiesner

Other staff at Board table: **FASB:** Cospers, Esposito, and Debbink

**IASB:** Lloyd, Dasgupta, Feygina, and Figgie

Outside participants: None

**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 issued an Exposure Document in the first quarter of 2013.

**Summary of Decisions Reached:**

The IASB and the FASB discussed clarifications to the business model assessment in the Boards' recent Exposure Drafts.

*Agenda Paper 6A, Overall Business Model Assessment*

The Boards discussed the meaning of the term *business model*, including the role of cash flow realization, and the level on which the business model is assessed and tentatively decided to clarify that the business model assessment should:

1. Refer to the actual management of financial assets in order to generate cash flows and create value for the entity—that is, whether the likely cash flows will result primarily from the collection of contractual cash flows, sales proceeds, or both;
2. Allocate financial assets to the measurement attribute that will provide the most relevant and useful information about how activities and risks are managed to generate cash flows and create value; and
3. Be assessed at a level that reflects (groups of) financial assets managed together to achieve a particular (common) objective.

The Boards discussed clarifications of how the business model—and a change in the business model—should be assessed and tentatively decided to clarify that:

1. The entity's business model for managing financial assets is often observable through particular activities that are undertaken to achieve the objectives of that business model.
2. Sales do not drive the business model assessment and information about sales activity should not be considered in isolation (as further described in paragraph 76(a)–(b) of the observer notes for Agenda Paper 6A).
3. A change in business model will occur only when an entity has either stopped or started doing something on a level that is significant to its operations—and that generally would be the case only when the entity has acquired or disposed of a business line.

The IASB also tentatively decided to clarify that:

1. Business activities usually reflect the way in which the performance of the business model and underlying financial assets in that business model are evaluated and reported (that is, key performance indicators) as well as the risks that typically affect the performance of the business model and how those risks are managed.
2. An entity should consider all relevant and objective information that is available at the date of the assessment but should not consider every “what if” or worse-case scenario if the entity does not reasonably expect those scenarios to occur.
3. If cash flows are realized in a way that is different from the entity’s expectations at the date the business model assessment was made, it will neither:
  - a. Result in the restatement of prior period financial statements; nor
  - b. Change the classification of the remaining financial assets in the business model, as long as the entity considered all relevant and objective information that was available at the time it made the assessment.

In addition, the FASB tentatively decided to converge the guidance in its tentative classification and measurement model with IFRS 9, *Financial Instruments*, regarding the date on which reclassification is reflected in the financial statements. Specifically, the FASB tentatively decided that the reclassification date would be the first day of the first reporting period following the change in the business model. The FASB had earlier proposed the reclassification date as the last day of the reporting period in which the change in business model occurs.

*Agenda Paper 6B, Hold to Collect Business Model*

The Boards discussed clarifications to the hold to collect business model and tentatively decided to clarify the application guidance for the hold to collect business model as set out in paragraphs 62(a)-(d) of the observer notes for Agenda Paper 6B, specifically:

1. To re-enforce the current hold to collect “cash flows (value) realisation” concept;
2. To emphasise that insignificant and/or infrequent sales may not be inconsistent with the hold-to-collect business model;
3. To clarify that sales information should not be considered in isolation and is not determinative; and
4. To clarify that credit risk management activities aimed at minimizing potential credit losses due to credit deterioration are integral to the hold-to-collect objective.

In addition, as part of the clarifications under point (1) above, the FASB tentatively decided that the guidance on the hold-to-collect business model should emphasize activities aimed at achieving the business model's objective.

The Boards tentatively decided that sales made in managing concentration of credit risk should be assessed in the same way as any other sales made in the business model.

#### *Agenda Paper 6C, Fair Value Categories*

The Boards discussed the fair value measurement categories.

The Boards tentatively decided to retain two fair value measurement categories, that is, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVPL), and to define the business model that results in measurement at FVOCI and to retain FVPL as the residual measurement category.

The Boards tentatively decided to clarify the application guidance for the FVPL measurement category, specifically that:

1. Financial instruments managed and evaluated on a fair value basis or held for trading purposes must be measured at FVPL.
2. For the financial assets that are measured at FVPL, the entity makes decisions based on changes in—and with the objective of realizing—the assets' fair value.

In addition, the IASB tentatively decided to clarify that the activities the entity undertakes in the FVPL measurement category are primarily focused on fair value information and that key management personnel uses that fair value information to assess the assets' performance and to make decisions accordingly. In addition, another indicator is that the users of the financial statements are primarily interested in fair value information of these assets in order to assess the entity's performance.

The Boards also tentatively decided to clarify the application guidance for the FVOCI measurement category as set out in paragraph 76(a)–(c), (d)(ii)–(d)(iv), and (e) of the observer notes for Agenda Paper 6C, specifically that:

1. In the FVOCI business model, managing financial assets both to collect contractual cash flows and for sale is the outcome of the way in which financial assets are managed to achieve a particular objective rather than the objective itself; that is, the assets classified in FVOCI are managed to achieve the business model objectives (such as liquidity management, interest rate risk management, yield management, and duration mismatch management) by both collecting contractual cash flows and selling.

2. Both collection of contractual cash flows and realization of cash flows through selling are integral to the performance of the FVOCI business model and that there is no threshold for the frequency or amount of sales in the FVOCI business model.
3. Particular activities are typically aimed at achieving the FVOCI business model objectives.

The IASB also tentatively decided to clarify that for financial assets in the hold-to-collect and sell business model, the key performance indicators include the contractual interest yield, impairment charges, and fair value changes.

In addition, the FASB tentatively decided that the guidance in the FASB's Exposure Draft that would require an individual asset for which an entity has at initial recognition not yet determined whether it will hold the financial asset to collect contractual cash flows or sell to be measured at FVOCI should be removed.

**Next Steps:**

The Boards will consider the other aspects of their respective proposals at future meetings.