**MINUTES**

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| **To:** | Board Members | | |
| **From:** | Proctor (x462) | | |
| **Subject:** | Minutes of the July 16, 2014 Board Meeting: Ratification of Two EITF Consensuses | **Date:** | August 1, 2014 |
| **cc:** | Sutay | | |

*The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Boards' 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.*

Topics: Board ratification of the consensuses reached on EITF Issues No. 12-G and No. 13-F

Basis for Discussion: EITF Ratification Memorandum No. 1 (issued on June 20, 2014)

Length of Discussion: 12:00 to 12:15 p.m. EDT

Attendance:

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| Board members present: | Golden, Buck, Kroeker, Linsmeier, Schroeder, Siegel, and Smith |
| Board members absent: | None |
| Staff in charge of topic: | Hillenmeyer, May |
| Other staff at Board table: | Proctor, Silver |
| Outside participants: | None |

**Type of Document and Timing Based on the Technical Plan:**

The Board met to discuss the potential issuance of Accounting Standards Updates addressing EITF Issues No. 12-G, "Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity," and No. 13-F, "Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure."

**<u>Tentative Board Decisions</u>:**

*FASB Ratification of Two EITF Consensuses*

The Board ratified the following consensuses reached at the June 12, 2014 EITF meeting and approved issuance of the related Accounting Standards Updates.

**Issue No. 12-G, "Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity"**

This Issue provides an alternative to Topic 820, Fair Value Measurement, for measuring the financial assets and the financial liabilities of a consolidated collateralized financing entity that would eliminate the difference that results when both the financial assets and the financial liabilities of a collateralized financing entity are measured at fair value.

The measurement alternative to Topic 820 will be available to reporting entities that are required to consolidate a collateralized financing entity under the Variable Interest Entities Subsections of Subtopic 810-10 when (a) all of the financial assets and the financial liabilities of that collateralized financing entity are measured at fair value in the consolidated financial statements and (b) the changes in the fair values of those financial assets and financial liabilities are reflected in earnings.

Upon initial consolidation, a reporting entity should elect to measure the financial assets and the financial liabilities of a consolidated collateralized financing entity within the scope of this Issue using the measurement alternative or the guidance in Topic 820. For subsequent measurement, a reporting entity that elected to apply the measurement alternative initially should continue to apply that measurement guidance provided that the collateralized financing entity continues to meet the scope of this Issue. That is, if a reporting entity subsequently transfers financial assets or financial liabilities into a consolidated collateralized financing entity that are not measured at fair value or are not measured at fair value with the changes in fair value reflected in earnings, use of the measurement alternative resulting from this Issue will no longer be permitted and the reporting entity will be required to use Topic 820 to measure the financial assets and the financial liabilities of its consolidated collateralized financing entity.

If a reporting entity does not elect to apply the measurement alternative for a consolidated collateralized financing entity that meets the scope of this Issue, the financial assets and the financial liabilities of the consolidated collateralized financing entity should be measured using Topic 820 and any initial or subsequent differences in the fair value of the financial assets and the fair value of the financial liabilities of the consolidated collateralized financing entity should be reflected in earnings and attributed to the reporting entity in the consolidated statement of net income (loss). Under the measurement alternative, if the fair value of the financial assets of the collateralized financing entity is more observable, those financial assets should be measured at fair value and the financial liabilities should be measured in consolidation as (a) the sum of the fair value of the financial assets and the carrying value of any nonfinancial assets held temporarily, less (b) the sum of the fair value of any beneficial interests retained by the reporting entity (other than those that represent compensation for services) and the reporting entity's carrying value of any beneficial interests that represent compensation for services. The resulting amount should be allocated to the individual financial liabilities (other than those beneficial interests retained by the reporting entity) using a reasonable and consistent methodology.

If the fair value of the financial liabilities of the collateralized financing entity is more observable, the financial liabilities should be measured at fair value and the financial assets should be measured as (a) the sum of the fair value of the financial liabilities (other than those beneficial interests retained by the reporting entity), the fair value of any beneficial interests retained by the reporting entity (other than those that represent compensation for services), and the reporting entity's carrying value of any beneficial interests that represent compensation for services, less (b) the carrying value of any nonfinancial assets held temporarily. The resulting amount should be allocated to the individual financial assets using a reasonable and consistent methodology.

When the measurement alternative is elected, a reporting entity that consolidates a collateralized financing entity and elects to apply the measurement alternative should recognize in its consolidated net income (loss) only amounts that reflect changes in its own economic interests in the consolidated collateralized financing entity, including changes in the fair value of any beneficial interests (other than those that represent compensation for services) retained by the reporting entity. Beneficial interests retained by the reporting entity that represent compensation for services (for example, management fees or servicing fees) and nonfinancial assets that are held temporarily by a collateralized financing entity should be measured in accordance with other applicable Topics.

A reporting entity that consolidates a collateralized financing entity and measures the financial assets or the financial liabilities of the collateralized financing entity using the guidance resulting from this Issue should disclose all of the information required by Topic 820, Topic 825, and other relevant Topics, as applicable, for both the financial assets and the financial liabilities of the collateralized financing entity. For the less observable of the fair value of the financial assets and the fair value of the financial liabilities, a reporting entity should disclose that the amount was determined using the measurement alternative.

Reporting entities may apply the guidance resulting from this Issue using a modified retrospective approach. In addition, a reporting entity may apply the guidance retrospectively to all relevant prior periods beginning with the annual period in which the amendments in Update 2009-17 on consolidations (Topic 810) were initially adopted. Under the modified retrospective approach, a reporting entity should remeasure the financial assets or the financial liabilities using this guidance as of the beginning of the annual period of adoption and record a cumulative-effect adjustment to equity.

A reporting entity that consolidates a collateralized financing entity that does not meet the scope requirements in this Issue because it did not elect the fair value option in Topic 825 for the eligible financial assets, financial liabilities, or both, of a collateralized financing entity may elect at the date of adoption to apply the measurement alternative to those financial assets and financial liabilities in the Collateralized Financing Entities Subsections or to continue using other GAAP in measuring the financial assets and financial liabilities of the collateralized financing entity. That is, those reporting entities may only elect to use the measurement alternative for a collateralized financing entity and cannot elect at the date of adoption to use the requirements of Topic 820 or to otherwise change its basis for measuring the financial assets or financial liabilities of the collateralized financing entity. This one-time election is appropriate because some entities may not have elected the fair value option upon initial consolidation of a collateralized financing entity because it was previously unclear how to address the measurement difference between the fair value of the financial assets and the fair value of the financial liabilities.

The guidance will be effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. For entities other than public business entities, the guidance will be effective in the first annual period ending after December 15, 2016, and interim periods beginning after December 15, 2016. Early adoption is permitted.

(The Board voted unanimously for the above decision.)

**Issue No. 13-F, "Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure"**

This Issue applies to government-guaranteed mortgage loans that have all of the following conditions: (a) the loan has a government guarantee that is not separable from the loan before foreclosure, (b) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim, and (c) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate property is fixed. A creditor should reclassify a government-guaranteed mortgage loan within the scope of this Issue to a separate other receivable at the time of foreclosure.

The guidance resulting from this Issue should be applied using either (a) a prospective transition method or (b) a modified retrospective transition method by means of a cumulative-effect adjustment (through a reclassification to a separate other receivable) as of the beginning of the annual reporting period of adoption. However, an entity must use the same method of transition it elected under Update 2014-04. Early adoption is only permitted if the entity has already adopted Update 2014-04. Early adoption in any interim period is permitted as long as the changes are made as of the beginning of the annual period in which the interim period is included.

The guidance will be effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. For entities other than public business entities, the guidance will be effective in the first annual period ending after December 15, 2015, and interim periods beginning after December 15, 2015.

(The Board voted unanimously for the above decision.)

**General Announcements:** None