MINUTES

FINANCIAL ACCOUNTING STANDARDS BOARD

MEMORANDUM

To:	Board Members		
From:	Accounting for Financial Instruments Team		
Subject:	August 13, 2014 Board Meeting—Accounting for Financial Instruments: Impairment	**Date:**	August 19, 2014

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: Impairment
Basis for Discussion:	FASB Memo No. 261A—Impairment of Debt Securities FASB Memo No. 270—Clarifications to the Measurement Principle
Length of Discussion:	10:45 a.m. to 11:55 a.m. (EDT) 1:00 p.m. to 2:03 p.m. (EDT)

Attendance:

Board members present:	Golden, Buck, Kroeker, Linsmeier, Schroeder, Siegel, and L. Smith
Board members absent:	None
Staff in charge of topic:	McKinney and Laungani
Other staff at Board table:	Cosper, Esposito, Pohlman, and Hager
Outside participants:	None

<u>Type of Document and Timing Based on the Technical Plan</u>:

The Board continued redeliberations of its proposed Accounting Standards Update, *Financial Instruments—Credit Losses (Subtopic 825-15),* to develop final guidance on impairment of financial assets.

The Board's technical plan calls for a final Accounting Standards Update to be issued in the second half of 2014.

<u>Tentative Board Decisions</u>:

The Board discussed the impairment of debt securities and clarifications to the measurement principle for the current expected credit losses (CECL) model.

Impairment of Debt Securities

The Board decided that debt securities classified as available-for-sale should be excluded from the scope of the CECL model. (Vote: 4-3)

The Board affirmed its previous decision that the CECL model should apply to debt securities classified as held-to-maturity. (Vote: 7-0)

The Board decided that available-for-sale debt securities should continue to be within the scope of the impairment guidance in Topic 320. In addition, the Board decided that the impairment guidance in Topic 320 should be modified as follows:

1. An allowance approach should be used for recognizing impairment losses, which would allow an entity to recognize reversals of credit losses.
2. Subparagraph 320-10-35-33F(a) should be amended to remove the requirement to consider the length of time that the fair value of an available-for-sale debt security has been less than its amortized cost basis when estimating whether a credit loss exists.
3. Subparagraph 320-10-35-33F(g) should be removed. When estimating whether a credit loss exists, an entity would not be required to consider recoveries or additional declines in the fair value of an available-for-sale debt security after the balance sheet date.

(Vote: 4-3)

Clarifications to the Measurement Principle

The Board made the following decisions regarding clarifications to the measurement principle in the CECL model:

1. The Board affirmed the principles of the clarifications to the measurement approach as described in the August 13, 2014 Board meeting handout. Actual wording of the clarifications is subject to change during the drafting of the final standard. (Vote: 7-0)

2. The Board decided that the final standard would not explicitly state for which financial assets a zero allowance of expected credit losses would be appropriate. (Vote: 7-0)

3. The Board decided to include the following collateral-based practical expedients in the final standard:

   a. For a collateral-dependent financial asset, the allowance for expected credit losses would be measured as the difference between the collateral's *fair value* (adjusted for selling costs, when applicable) and the amortized cost basis of the asset.

   b. For a financial asset in which the borrower must continually adjust the amount of collateral securing the financial asset, the allowance for expected credit losses would be limited to the difference between the collateral's fair value (adjusted for selling costs) and the amortized cost basis of the asset.

   (Vote: 7-0)

4. When developing its estimate of expected credit losses, the Board decided that for periods beyond which the entity is able to make or obtain reasonable and supportable forecasts, an entity is allowed to revert to its historical credit loss experience over (a) the financial asset's estimated life on a straight-line basis or (b) a period and in a pattern that reflects the entity's assumptions about expected credit losses over that period. The Board also decided that an entity should disclose the reversion method applied in the notes to the financial statements.(Vote: 5-2)

General Announcements: None