MINUTES

FINANCIAL ACCOUNTING STANDARDS BOARD

MEMORANDUM

To:	Board Members
From:	Accounting for Financial Instruments Team
Subject:	September 3, 2014 Board Meeting—Accounting for Financial Instruments: Impairment
Date:	September 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. 277—Definition of a Writeoff

FASB Memo No. 278—Clarifications to the Term for Estimating Expected Credit Losses

Length of Discussion: 9:00 a.m. to 9:57 a.m. (EDT)

Attendance:

Board members present: Golden, Buck, Kroeker, Linsmeier, Schroeder, Siegel, and L. Smith

Board members absent: None

Staff in charge of topic: Pohlman and Hager

Other staff at Board table: Cosper, Esposito, Gupta, and Laungani

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.

A final Accounting Standards Update is expected to be issued in the first half of 2015.

<u>Tentative Board Decisions</u>:

The Board continued redeliberating its December 2012 proposed Accounting Standards Update, *Financial Instruments—Credit Losses (Subtopic 825-15),* specifically discussing the following issues: (1) when an entity should write off a financial asset, (2) how an entity considers extensions, renewals, and modifications in estimating expected credit losses, and (3) the appropriate period an entity should consider for estimating expected credit losses on loan commitments.

When an Entity Should Write Off a Financial Asset

The Board decided to forego the writeoff guidance in the proposed Update and instead retain the existing writeoff principle in GAAP, which requires an entity to write off financial assets in the period in which the financial assets are deemed *uncollectible*. Since the revised credit impairment approach for debt securities classified as available-for sale (AFS) will also include an allowance approach, the Board decided that entities should also apply this writeoff principle to AFS debt securities. (Vote: 7–0)

Consideration of Extensions, Renewals, and Modifications

The Board affirmed its previous decision that when estimating contractual cash flows to be collected, an entity should consider expected prepayments, but should only consider expected extensions, renewals, and modifications when the entity reasonably expects that it will execute a troubled debt restructuring with the borrower. (Vote: 7–0)

Estimating Expected Credit Losses on Loan Commitments

For the funded portion of loan commitments, the Board decided that expected credit losses should be estimated in the same manner as for other loans. That is, an entity should consider all contractual cash flows over the expected life of the loan. As with other loans, an entity should consider expected prepayments, but not expected extensions, renewals, or modifications unless the entity reasonably expects to execute a troubled debt restructuring with the borrower. (Vote: 7-0)

The Board also affirmed its previous decision that the expected credit losses for unfunded loan commitments should reflect the full contractual period over which the entity is exposed to credit risk via a present legal obligation to extend credit, unless unconditionally cancellable by the issuer. (Vote: 7–0)

General Announcements: None