

MINUTES



MEMORANDUM

To: Board Members

From: Accounting for Financial Instruments Team

Subject: March 11, 2015 Board Meeting—
Accounting for Financial Instruments: Impairment

Date: March 26, 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. 283—Transition Method

Length of Discussion: 9:00 a.m. to 9:45 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: Gupta and Pohlman

Other staff at Board table: Cosper, Esposito, Cahill, and Bjorkman

Outside participants: None

Type of Document and Timing Based on the Technical Plan:

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 second half of 2015.

Tentative Board Decisions:

The Board continued redeliberating the December 2012 proposed Accounting Standards Update, *Financial Instruments—Credit Losses (Subtopic 825-15)*, specifically discussing transition method and transition disclosures.

Other Than Temporarily Impaired Debt Securities

The Board decided that an entity would be required to adopt the new requirements for other than temporarily impaired debt securities prospectively as of the effective date. Amounts previously recognized in accumulated other comprehensive income as of the date of adoption that relate to significant improvements in cash flows would continue to be accreted to interest income over the remaining life of the debt security on a level-yield basis, consistent with the guidance in paragraph 320-10-35-35. Any improvements in cash flows of a security due to improvements in credit after the date of adoption would be recorded as a reduction in allowance for credit losses.

(Vote: 7-0)

Purchased Credit Impaired (PCI) Assets and Certain Beneficial Interests

The Board decided that all assets accounted for under Subtopic 310-30 on loans and debt securities acquired with deteriorated credit quality would be classified as PCI assets at the date of adoption, including those acquired assets for which Subtopic 310-30 has been applied by analogy. An entity would not be permitted to perform further assessments to determine other acquired assets that may meet the revised definition of a PCI. The Board decided that entities would be required to gross up the allowance for expected credit losses for all PCI assets at the date of adoption and would continue to recognize interest income based on the yield of such assets as of the adoption date. Subsequent changes in the expected credit losses on such assets would be recorded through the allowance for credit losses, with a corresponding adjustment to the current-period provision for credit losses.

In a previous Board decision, the Board decided to apply the PCI guidance to certain beneficial interests. The Board decisions on transition for PCI assets will also be extended to those beneficial interests.

(Vote: 7-0)

All Other Assets

For all other assets, the Board affirmed the proposal to require transition to the new requirements by recognizing a cumulative-effect adjustment to the statement of financial position as of the beginning of the first reporting period in which the guidance is effective.

(Vote: 7-0)

Transition Disclosures and Next Steps

The Board affirmed the transition disclosure requirements included in the proposed Update.

(Vote: 7-0)

The Board also discussed the next steps in the preparation of a staff draft of the final standard.

During drafting of the Accounting Standards Update, the staff will perform outreach with preparers and users on the disclosure requirement to disaggregate credit-quality disclosures by vintages, share the staff draft of decisions with the Board for feedback and with stakeholders as part of an external review process, gather information on any “sweep” issues, and seek feedback on the effective date.

The staff will then discuss with the Board at a future public meeting any sweep issues identified, cost-benefit and complexity of the decisions reached to date, effective date, and permission to ballot.

General Announcements: None