MINUTES

FINANCIAL ACCOUNTING STANDARDS BOARD

MEMORANDUM

To:	Board Members		
From:	Accounting for Financial Instruments Team		
Subject:	December 21, 2015 Board Meeting— Accounting for Financial Instruments: Impairment	**Date:**	December 23, 2015

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. 300-R—Purchased Financial Assets with Credit Deterioration Circularity FASB Memo No. 302—Treatments of Premiums and Discounts When Measuring Credit Loss
Length of Discussion:	9:00 a.m. to 9:50 a.m. (EST)

Attendance:

Board members present:	Golden, Buck, Kroeker, Linsmeier, Schroeder, Siegel, and L. Smith
Board members absent:	None
Staff in charge of topic:	Pohlman and Gupta
Other staff at Board table:	Cosper, Esposito, Thornburg, DeRevere and Viramontes
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 the first quarter of 2016.

<u>Tentative Board Decisions</u>:

The Board continued redeliberating the December 2012 proposed Accounting Standards Update, *Financial Instruments—Credit Losses (Subtopic 825-15),* specifically discussing the accounting for purchased financial assets with credit deterioration (PCD assets) and how premiums and discounts should be considered when measuring credit losses.

Accounting for PCD Assets

The Board decided that when estimating the allowance for credit losses using a method that does not discount future expected cash flows, entities should base the allowance on the par amount of the PCD asset.

When estimating the allowance for credit losses using a method that discounts future expected cash flows, entities should use the discount rate that equates the purchase price of the PCD asset with the present value of estimated future cash flows.

(Vote: 7–0)

The Board discussed requiring the use of a discounted cash flow approach to measure expected credit losses on PCD assets at their acquisition date, but decided not to require the use of a specific estimation method, either initially or on subsequent measurement dates.

(Vote: 6–1)

Treatment of Premiums and Discounts When Measuring Credit Loss

The Board decided that an allowance for credit losses measured using a method that does not discount future expected cash flows should reflect expected credit losses of the amortized cost basis of the financial assets, including premiums and discounts. To minimize disruption to the processes entities currently use to measure credit losses, however, an entity may separately measure expected credit losses on each of the following components of an amortized cost basis:

1. Unpaid principal balance (face amount)
2. Premiums or discounts (including net deferred fees and costs) and foreign exchange and fair value hedge accounting adjustments.

(Vote: 7–0)

General Announcements: None