MINUTES

Financial Accounting Standards Board

To:	Board Members
From:	Accounting for Financial Instruments Team (Kubic x296)
Subject:	August 13, 2009 Board Meeting Minutes: Accounting for Financial Instruments
Date:	September 2, 2009
cc:	FASB: Golden, Bielstein, Lott, Stoklosa, Proestakes, Ampofo, Laungani, Bhave, Mills, Wilkins, Willis, Maroney, Worshek, Sangiuolo, Yang, Kubic, Burnap, C. Smith, Brickman, Homant, Chookaszian, Posta, Glotzer, Mechanick, Gabriele, Sutay, McGarity, Klimek, Intranet; GASB: Finden; IASB: Leisenring, Francis, Figgie

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 a final standard.

Topic:	Financial Instruments: Presentation
Basis for Discussion:	Board Memorandum No. 12
Length of Discussion:	8:30 to 9:35 a.m.
Attendance:	
Board members present:	FASB: Herz, Linsmeier, Seidman, and Siegel IASB: Leisenring
Board members participating by phone:	Smith
Staff in charge of topic:	Ampofo
Other staff at Board table:	Golden, Stoklosa, Sangiuolo, Laungani, Maroney, Worshek, Yang, Burnap, and Kubic

Summary of Decisions Reached:

The Board discussed and made tentative decisions about how an entity would present financial instruments in the basic financial statements.

The Board decided that financial instruments whose fair value changes are recognized in net income should be presented separately on the balance sheet from those financial instruments whose fair value changes are recognized in other comprehensive income. The Board made the following additional decisions:

1. For financial instruments whose fair value changes are recognized in net income:
    a. Entities would be required to present on the balance sheet the fair value amount. Entities would not be prohibited from presenting on the balance sheet or disclosing in the notes the amortized cost amount and the fair value adjustment amount related to the instruments in addition to the fair value amount.
    b. Entities would be required to present the amortized cost amount for own debt on the balance sheet.
    c. Entities would be required, at a minimum, to present separately on the income statement an aggregate amount for unrealized and realized gains or losses. Entities would not be prohibited from reporting interest accruals or credit losses as separate line items on the income statement.

2. For financial instruments whose fair value changes are recognized in other comprehensive income:
    a. Entities would be required to present the cumulative credit losses as a separate line item on the face of the balance sheet for financial assets. The cumulative credit losses amount would be presented separately from the remainder of the fair value adjustment to reconcile the amortized cost amount to the fair value of the financial instrument.
    b. Entities would not be required to report foreign currency transaction gains or losses on a foreign-currency-denominated financial instrument as a separate line item on the income statement. Those changes in fair value would be required to be reported in other comprehensive income with other changes in fair value when the financial instrument is reported in the fair value through other comprehensive income category.
    c. Entities would not be required to provide additional information on further disaggregation of changes in fair value beyond (1) credit impairment, (2) interest accruals, and (3) the remainder (other residual changes in fair value).

For an entity's own debt for which the amortized cost option is elected, an entity would be required to present separately on the income statement the interest accruals and any realized gains or losses.

Objective of Meeting:

The objective of the meeting was to discuss certain issues related to the financial statement presentation of financial instruments given the Board's tentative decisions made to date. The objective of the meeting was met.

Matters Discussed and Decisions Reached:

1. Mr. Ampofo stated the Board's decisions at the July 15, 2009 Board meeting would be used as the basis for the August 13, 2009 meeting. Mr. Ampofo stated that at the July 15 meeting the Board decided on two categories in which financial instruments will be reported. The first category is to measure instruments at fair value with changes in fair value recognized in net income (FV-NI). The second category is to measure instruments at fair value with changes in fair value recognized in other comprehensive income (FV-OCI). Mr. Ampofo stated that the Board decided to have an amortized cost option for an entity's own debt.

Issue 1: Balance Sheet Presentation for Financial Instruments Whose Changes in Fair Value Are Recognized in Net Income

2. Mr. Ampofo reiterated the Board's July 15, 2009 decision that for financial instruments measured at FV-OCI, the instrument's amortized cost, fair value adjustment, and fair value is required to be presented on the face of the balance sheet. Mr. Ampofo stated that the issue is whether this presentation approach should be extended to financial instruments in FV-NI or to any subset of that category.

3. Mr. Ampofo outlined two alternatives for the Board's consideration. Alternative 1 would present only fair value on the face of the balance sheet for those financial instruments in the FV-NI category. The staff noted that there could be possible

disclosure of amortized cost and the reconciliation to fair value in the notes to the financial statements.

4. Alternative 2 would require gross presentation of amortized cost, fair value adjustment, and fair value for some or all financial instruments in the FV-NI category. This approach would be consistent with the presentation for financial instruments whose fair value changes are recognized in other comprehensive income. There were two subsets of alternative 2. Alternative 2(a) would require this presentation for all financial instruments in the FV-NI category. Alternative 2(b) would require this presentation for all FV-NI financial instruments except for trading instruments.

Staff Recommendation

5. The staff recommends alternative 1. The staff recommends permitting, but not requiring, an entity to disclose amortized cost and the reconciliation to fair value in the notes to the financial statements.

Issue 1 Board Vote

6. The Board decided to require presentation of amortized cost, fair value adjustment, and fair value for an entity's own debt recorded in the FV-NI category. All Board members agreed. The Board decided to permit, but not require, an entity to present amortized cost, fair value adjustment, and fair value for other instruments in the FV-NI category. The Board wanted to clarify that even if an entity chose that presentation format, the entity would not be allowed to aggregate FV-NI instruments and FV-OCI instruments on the statement of financial position. The Board clearly stated that FV-NI instruments and FV-OCI instruments should be presented separately.

Issue 1 Board Comments

7. Mr. Smith asked if alternative 1 was designed to create a footnote disclosure or if disclosures would be addressed at a later meeting. The staff responded that alternative 1 would simply permit the disclosure, but would not require it. The staff stated that disclosures will be addressed in more detail in the future.

8. Mr. Herz stated that the IASB's July 2009 Exposure Draft, *Financial Instruments: Classification and Measurement* (Financial Instrument Exposure Draft), would not require the presentation of amortized cost for items reported at fair value with changes in net income. Mr. Ampofo stated that Mr. Herz was correct. Mr. Herz noted that not requiring the presentation of amortized on the face of the balance sheet for FV-NI items would be consistent with the IASB's proposed guidance.

9. Mr. Linsmeier clarified that the staff's recommendation was not to prohibit the presentation of amortized cost of the face of the balance sheet for FV-NI items. Mr. Linsmeier stated that if an entity was not required to present amortized cost on the face of the balance sheet for FV-NI instruments, an entity would still be allowed to present amortized cost on the face of the balance sheet.

10. Mr. Siegel expressed concern that if under alternative 1 an entity chose to show amortized cost of the face of the balance sheet, it might attempt to aggregate FV-NI financial assets with FV-OCI financial assets. He stated that for any presentation method for FV-NI items, he would prefer those items not to be aggregated with FV-OCI items.

11. Mr. Smith stated that he wanted to clarify that no matter which presentation approach was taken, an entity would be precluded from aggregating FV-NI instruments and FV-OCI instruments. Ms. Sangiuolo stated that the staff agrees that FV-NI instruments should not be aggregated with FV-OCI items.

12. Mr. Herz stated that he believes amortized cost could still be a relevant number because items in the FV-NI category are not just trading instruments, but instruments that could be held for a substantial period of time. Mr. Seidman stated

that in a recent analyst report she read that analysts wanted to know the amortized cost number for an entity's own debt, even if such debt was reported at FV-NI. She stated that analysts still believe the amortized cost number is important, and if it was precluded from being on the face of the balance sheet then analyst would have to wait for the footnotes to get the amortized cost number for an entity's own debt measured at FV-NI. Mr. Herz stated that rating agencies and other constituents had expressed the opinion that amortized cost was still a very important number for an entity's own debt in FV-NI.

13. Mr. Golden asked if Ms. Seidman found herself supporting alternative 2(b). She stated that she believes alternative 2(b) could be applied to all financial instruments measured at FV-NI and she does not want to include all items. Mr. Golden clarified that Ms. Seidman wanted the amortized cost amount presented for own debt measured at FV-NI, but not for other financial instruments measured at FV-NI. Mr. Golden asked if Ms. Seidman would allow, but not require, an entity to report amortized cost on the face of the balance sheet for other instruments in FV-NI. Ms. Seidman noted her support for that approach. Ms. Seidman stated she believes an entity should be required to show amortized cost in the presentation of own debt in FV-NI.

14. Mr. Golden asked if any Board members believe that for all FV-NI instruments amortized cost should be required to be presented on the balance sheet. No Board members believe that amortized cost should be presented for all FV-NI instruments.

15. Mr. Golden then asked if instruments measured at FV-NI that should have required presentation of amortized cost should be presented on the balance sheet. Mr. Smith stated that he believes such a presentation should be required for own debt in FV-NI. Mr. Herz agreed. Mr. Linsmeier stated that he would not require the presentation of amortized cost for own debt in FV-NI, but he would permit such presentation.

16. Ms. Sideman reiterated that it appears investors would want the amortized cost number for own debt. Mr. Herz stated that different users—such as an equity analyst, a person who invests in fixed income, and a regulator—may use amortized cost and fair value numbers differently. Mr. Siegel stated that an equity analyst would want the amortized cost number for own debt. Mr. Linsmeier stated that for purposes of simplifying the balance sheet, amortized cost for FV-NI own debt could be presented parenthetically. Messrs. Herz and Smith agreed.

17. Mr. Linsmeier asked if investors wanted the principal amount or the amortized cost of own debt. Mr. Golden stated that he believes investors would want the amortized cost number to calculate the effect on net income. It was noted that the principal amount would be disclosed in the footnotes. Ms. Seidman stated that investors may watch the unrealized gain/loss number as a signal in the deterioration or improvement in credit quality, which suggests investors would want amortized cost and fair value presented on the face of the balance sheet.

18. Ms. Laungani clarified that financial instruments in FV-NI that are not debt are still permitted, but not required, to have the presentation of the amortized cost number on the face of the balance sheet. Ms. Seidman stated that was correct. Messrs. Siegel and Linsmeier agreed.

Issue 2: Income Statement Presentation

19. This issue addresses income statement presentation for (a) financial instruments whose changes are presented in FV-NI and (b) financial liabilities for which the amortized cost option is elected.

Issue 2(a): Income Statement Presentation for Financial Instruments in FV-NI

20. Mr. Ampofo stated that the Board decided at the July 15 Board meeting that an entity should present interest accruals, credit impairments, and realized/unrealized gains/losses on the face of the income statement for financial instruments reported in FV-OCI. He noted that the new issue is whether to require separate presentation

of interest accruals, credit impairments, and realized/unrealized gains/losses on the face of the income statement financial instruments reported at FV-NI.

Staff Recommendation

21. The staff recommends that for financial instruments measured at FV-NI interest accruals and credit losses should not be required to be separately presented on the face of the income statement. The staff noted that preparers would not be precluded from separately presenting such items. The staff recommends the requirement of separate presentation of realized/unrealized gains/losses on the face of the income statement for instruments in the FV-NI category.

Issue 2(a) Board Vote

22. The Board voted to require separate presentation of realized/unrealized gains/losses on the face of the income statement for instrument in the FV-NI category. All Board members agreed. The Board agreed not to require, but permit, separate presentation of interest accruals and credit losses for FV-NI instruments.

Issue 2(a) Board Comments

23. Mr. Linsmeier asked for clarification on the difference between the realized and unrealized number. He asked if the unrealized number was only the change in the fair value of the instrument from the beginning of the period, or if the unrealized number was the difference in the selling price and the original acquisition price of the instrument. Mr. Ampofo stated that because instruments in FV-NI have been marked to fair value with changes in fair value recognized in net income, the realized portion would simply be the change in fair value from the beginning of the period. Mr. Smith noted that in many cases the realized number would be a very small number. Mr. Linsmeier stated that he sees no value in separating realized gains from unrealized gains for FV-NI instruments. Mr. Smith agreed.

24. Ms. Sanguilo clarified that the staff's recommendation was not to separately present realized gains/losses and unrealized gains/losses. Rather, the staff's recommendation was to present unrealized/realized gains and losses separately from interest accruals or credit impairments. If an entity wanted to separate realized gains/losses from unrealized gains/losses that would be permitted, but not required. Ms. Laungani stated that in some industries the presentation of realized gain/loss is the cumulative change in fair value over prior periods.

25. Mr. Herz asked about the separate presentation of interest expense on an entity's own debt that is measured in FV-NI. Ms. Seidman stated that in certain situations that would be useful, but she would not want to require that presentation for all entities. Ms. Seidman noted that the presentation of amortized cost of the face of the balance sheet would allow investors to determine interest expense.

26. Mr. Linsmeier stated that for many entities and investors that follow those entities, net interest margin is an important metric. He stated that if interest expense was presented for liabilities measured at FV-NI, but interest income was not presented for assets measured at FV-NI, then it would be harder to determine net interest margin.

27. Mr. Herz stated that an important issue under the proposed FASB model is that the FV-NI category will include financial instruments that are actively traded and those that are not actively traded. He stated that for traded items, the separate presentation of interest income or expense would not be important. However, the separate presentation of interest income or expense for financial instruments in FV-NI could be important for instruments not actively traded. He noted that a solution would be to allow an entity to separately present interest income or expense if it believes that doing so provided a better representation of its operations. However, separate presentation of those amounts would not be required.

28. Mr. Herz gave the following example to demonstrate the above point. He stated that a fixed income fund may separately show interest and dividends because it believes that information is meaningful. However, separately presenting interest income and dividends may not be useful or practical for a fund that has a proprietary trading portfolio.

29. Ms. Seidman stated that an entity who values net interest margins will continue to calculate yields on an effective yield basis so that at any point in time the difference between amortized cost and current fair value adjusts for accrual of interest and passage of time. She stated that this is the traditional methodology used to distinguish between interest and unrealized gains/losses, and she would prefer not to change that approach. Mr. Linsmeier agreed with Ms. Seidman's point, and reiterated that he believes requiring interest expense, but not requiring interest income, would provide only a partial picture.

30. Ms. Seidman noted that the presentation would depend on an entity. She stated that the proposed wording should allow an entity that wanted to separately present interest or dividends if the entity believes information was more useful in that manner. Mr. Herz agreed and stated that the goal was not to change the presentation of interest income, interest expense, and net interest margin for entities who believe such reporting is useful. He stated that such an approach would still be allowed.

31. Mr. Herz stated that in current practice there is no separate presentation requirements for items currently reported at fair value with changes in fair value recognized through net income. He stated that entities were able to separate out components in a manner they believe provides the most useful information. Mr. Siegel asked if the Board could stay silent on this issue.

32. Ms. Seidman noted that in current practice an entity could aggregate unrealized/realized gains and losses into other income if it has a minor amount of investment gains/losses in income. The new model would require a substantially greater number of instruments be measured at fair value with changes in income.

With a larger amount of items in FV-NI, the aggregation of that number into other income would not be appropriate. Thus, she stated that it would be best to require separate presentation of realized/unrealized gains/losses for FV-NI instruments. Ms. Sangiuolo agreed with Ms. Seidman that the rationale for establishing a requirement to at least present realized/unrealized gains/losses separately is because of the larger amount of instruments reported at fair value with changes in fair value recognized through the income statement. Ms. Sangiuolo stated that another reason presentation of interest should be permitted is that there could be items eligible for FV-OCI that pay a significant amount of interest an entity might choose to account for in FV-NI.

33. Mr. Smith gave an example of an entity that decided to carry at FV-NI an investment in a long-term debt instrument that paid cash interest payment. He asked if that cash payment can, or must, be separated from other changes in fair value of that instrument. Mr. Linsmeier stated that under the staff's recommendation, such an interest payment can be reported separately but it is not required to be reported separately. Mr. Smith stated that in his example the receipt of cash would lower the fair value of the instrument, but would be a realized gain. Thus, the realized gain and unrealized change in fair value could be presented separately or together. Mr. Stoklosa agreed.

34. Ms. Seidman stated that she would prefer not to require the presentation of interest expense for FV-NI instruments, but would like to permit such an approach, both on the asset and liability side, so that net interest margin could still be presented.

Issue 2(b): Income Statement Presentation for Financial Liabilities for Which the Amortized Cost Option Is Elected

35. Mr. Ampofo stated that this issue addresses whether separate presentation should be required for interest accruals or realized gains/losses for an entity's own debt for which the amortized cost option is elected.

Staff Recommendation

36. The staff recommends that interest accruals and realized gains/losses upon settlement/reacquisition be presented separately in the statement of financial performance for financial instruments for which the amortized cost option is elected.

Issue 2(b) Board Vote

37. The Board voted in favor of the staff's recommendation to separately present interest accruals and realized gains/losses upon settlement/reacquisition for financial liabilities for which the amortized cost option was elected. All Board members agreed.

Issue 2(b) Board Comments

38. The Board made no comments on this issue.

Issue 3: Balance Sheet Presentation of the Cumulative Credit Losses for Financial Instruments Measured at FV-OCI

39. Mr. Ampofo stated that this issue addresses the balance sheet presentation of cumulative credit losses related to financial instruments in FV-OCI. He stated that there are two alternatives.

40. Alternative 1 would require presentation of credit losses as a separate line item on the face of the balance sheet, separate from the remainder of the fair value adjustment that reconciles the amortized cost balance to the fair value of the financial asset. Thus, the presentation of FV-OCI items would be cost minus

cumulative credit losses, plus or minus residual fair value adjustment to arrive at fair value.

41. Alternative 2 would prohibit separate presentation of credit losses on the face of the balance sheet. That is, credit losses would be subsumed into the fair value adjustment for the financial asset. Thus, the presentation of FV-OCI items would be cost plus or minus fair value adjustment to arrive at fair value.

Staff Recommendation

42. The majority of the staff recommends alternative 1. Mr. Ampofo noted that alternative 1 would be consistent with the current accounting model for loans and that alternative 1 would provide relevant information to users of financial statements. Those staff members also believe that the separate presentation of the cumulative credit loss on the face of the balance sheet is a natural complement to the separate presentation within net income of any credit impairment incurred during each period. Other staff members believe that alternative 2 is preferable but suggest the need for disclosure of the cumulative credit impairment.

Issue 3 Board Vote

43. The Board voted in favor of alternative 1, which would require presenting credit losses as a separate line item on the face of the balance sheet, separate from the remainder of the fair value adjustment. All Board members agreed.

Issue 3 Board Comments

44. Ms. Seidman asked whether the scope of the staff's recommendation was for all FV-OCI items. She stated that this would be very valuable for some FV-OCI items like loans, but not necessary for all FV-OCI items. The staff stated that the recommendation was to require that presentation for all FV-OCI items.

45. Mr. Stoklosa stated that currently there was an enhanced loan loss disclosure project with a rollforward schedule that would provide information about credit impairments for loans. Thus, he believes cumulative credit losses could be a

footnote disclosure rather than being presented on the face of the balance sheet. He expressed concern that reporting cost, cumulative credit impairments, residual fair value adjustment and fair value would clutter the face of the balance sheet.

46. Ms. Seidman stated that she supports presenting cumulative credit impairments for loans because the objective of this project is to provide information in two different ways that would be useful to different users. For example, for investors who find value in a credit and effective yield approach, a more traditional credit allowance on the face of the balance sheet would allow them to continue to use their current valuation techniques. Mr. Linsmeier asked Ms. Seidman if her approach was to present cumulative credit impairments for loans and receivables. Ms. Seidman stated that she would want to present cumulative credit impairments for any instruments that involve a more long-term relationship if credit is an issue.

47. Mr. Golden asked Ms. Seidman why her approach would not apply to other investments in long-term debt securities. She stated that she could see how credit impairments for such an instrument would be useful. Mr. Herz stated that the proposed classification criteria would apply to FV-OCI items that had a contractual maturity and were held longer term. Credit impairments would be possible for those items. Thus, Mr. Herz stated that he would support separate presentation of cumulative credit losses.

48. Mr. Siegel clarified that impairments would not be netted against the cost number, but would be reported separately as cumulative credit impairments or in the fair value adjustment. He stated that separately presenting cumulative credit impairments and also having the fair value number would allow investors to compare management's view of an asset to the market's view of an asset. Mr. Linsmeier agreed and stated that management's view of the credit impairment would be seen in the cumulative credit impairments, while the market's view could be determined by incorporating the fair value adjustment. Ms. Seidman stated that the credit portion of the change in fair value would be recognized through net

income, while the other fair value change would be recognized in other comprehensive income. The staff noted that this is correct.

49. Mr. Stoklosa wanted to clarify how the fair value adjustment number would be calculated if cumulative credit impairments were reported separately. He gave the example of an instrument that had a cost of $100 and a fair value of $150. However, the instrument had $10 in credit impairments to date. In that case, the fair value adjustment would be $60. It would be reported as cost of $100, minus cumulative credit impairments of $10, plus fair value adjustment of $60, which would equal fair value of $150. Mr. Linsmeier noted that this approach would allow an investor to determine the credit change in fair value versus other changes in fair value. He clarified that the remaining change in fair value would be a combination of changes in fair value due to interest rates and the market's view of credit impairments. Mr. Herz stated that the separate presentation of cumulative credit losses would isolate which changes in fair value have an effect on cash flows, similar to the approach taken in FASB Staff Position FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments.*

50. On a related topic, Ms. Seidman stated that the separate presentation of cumulative credit impairments for loans in the FV-OCI bucket could also be a useful presentation method for acquired loans. She gave an example of buying loan for $80 that had a principal amount of $100. She suggested reporting the loan at $100 minus $20 for cumulative credit impairments to arrive at the value paid of $80 with no effect on the income statement. She noted that allowing this presentation at day 1 would allow consistency in accounting application. Mr. Linsmeier asked if the requirement to show cumulative credit losses would apply to acquired loans. Mr. Golden stated that the application to acquired loans would depend on the definition of *amortized cost*, which could be defined as the amount paid to acquire the loans or the amount of the originator's amortized cost.

51. Ms. Seidman stated that under FASB Accounting Standards Codification™ Topic 805 on business combinations (originally issued as FASB Statement No. 141 (revised 2007), *Business Combinations)* amortized cost would be the amount paid to acquire the loan, and thus the requirement to separately present cumulative credit impairments would not affect the initial presentation of acquired loans. Mr. Siegel stated that he heard a similar position in a recent discussion with an analyst. Mr. Stoklosa agreed that such information could be useful, but could be presented in the footnotes instead of on the face of the balance sheet. Mr. Herz stated that many people have a similar view and this is an issue that should be addressed in the future.

Issue 4: Foreign Currency Transaction Gains/Losses for Financial Instruments Whose Fair Value Changes Are Recognized in Other Comprehensive Income

52. Mr. Ampofo stated that Topic 830 on foreign currency matters (originally issued as FASB Statement No. 52, *Foreign Currency Translation*) generally requires that transaction gains and losses on foreign-currency-denominated monetary assets and liabilities be reflected in the income statement. Section 830-20-35 (originally issued as EITF Issue No. 96-15, "Accounting for the Effects of Changes in Foreign Currency Exchange Rates on Foreign-Currency-Denominated Available-for-Sale Debt Securities") requires that the entire change in the fair value of foreign-currency-denominated available-for-sale debt securities be reported in other comprehensive income. That is, the portion of the fair value change attributable to foreign currency transaction gains/losses is not reported separately in net income.

53. The staff outlined two alternatives for the Board's consideration. Alternative 1 would report the entire change in the fair value of foreign-currency-denominated financial instruments in other comprehensive income. Alternative 2 would separately report the portion of the fair value change attributable to exchange rate changes in net income.

Staff Recommendation

54. The staff recommends alternative 1 because it is consistent with the current approach for currency-denominated available-for-sale debt securities and is less complex.

Issue 4 Board Vote

55. Four Board members (Herz, Seidman, Siegel, and Smith) voted for alternative 1 to report the entire change in the fair value of foreign-currency-denominated financial FV-OCI instruments in other comprehensive income. On Board member (Linsmeier) voted for alternative 2.

Issue 4 Board Comments

56. Ms. Seidman stated that this requirement would only affect debt instruments. Thus, she stated that if the Board chose alternative 2—the separate presentation of the credit component—then there would be separate presentation of credit, foreign currency and fair value adjustment, which would create a very busy balance sheet. Thus, she expressed her support for alternative 1.

57. Mr. Herz agreed with Ms. Seidman. Mr. Herz stated that he was a member of the EITF when it debated Issue 96-15 and, based on the findings of those debates, he supports alternative 1. Mr. Herz stated that alternative 2 was more in line with the conceptual reasoning of Topic 830.

58. Mr. Linsmeier stated that alternative 2 was more consistent with the notion that items in other comprehensive income should only be items reasonably expected to reverse. He stated that he believes that under the FASB proposed model the fair value changes for items in other comprehensive income can be reasonably expected to reverse when the instrument is held for collection. He believes that foreign currency gains and losses cannot be expected to reverse even if the instrument is held for collection; therefore, he believes no such changes should be reported in other comprehensive income. Additionally, he noted that alternative 2 was more consistent with Topic 830. Thus, he expressed his support for alternative 2.

59. Mr. Herz asked how an assertion can be made that interest rates changes will reverse while foreign currency rates will not because both are determined in markets. Mr. Linsmeier stated that while interest rates may not reverse, the fair value of a security based on interest rates would approach the principal amount as the security became closer to maturity.

60. Mr. Linsmeier stated that it was not clear why there should be separate presentation of credit impairments but not for fair value changes due to foreign currency. Ms. Seidman responded that the separate presentation of cumulative credit impairments was a presentation matter investors felt was important. She noted that investors did not state that separate presentation of a change in fair value due to changes in foreign currency rates was necessary.

61. Mr. Linsmeier noted that investors did not explicitly state that recycling gains/losses of FV-OCI items was useful, yet the Board requires recycling of gains and losses for items in FV-OCI. Mr. Herz clarified that in the past the FASB had talked to a large number of investors about recycling and they generally supported it. He noted that this outreach was before Mr. Linsmeier became a member of the Board.

62. Mr. Smith stated that although Mr. Linsmeier raised a valid point, he still agrees with the staff's recommendation to report the entire change in the fair value of foreign-currency-dominated instruments in other comprehensive income. Mr. Siegel also noted that he agrees with the staff's recommendation.

63. Mr. Stoklosa stated that certain people believe when an instrument has changes in fair value that can be expected to reverse over the life of the instrument, those fair value changes should be reported in other comprehensive income. However, he stated that the notion of other comprehensive income as a location for fair value changes that will reverse is not in the standards.

64. Mr. Herz agreed with Mr. Stoklosa. He stated that some people believe other comprehensive income is a place for instruments that have a change in fair value that will reverse as the instrument reaches maturity. However, he noted that he does share that view. Ms. Seidman agreed.

65. Mr. Linsmeier asked if Section 830-20-35 requires disclosure of the foreign currency loss on available-for-sale investments. Mr. Linsmeier stated that he believes it would be difficult to determine the total foreign currency transaction gain/loss because of the foreign currency transaction gains/losses included in the fair value adjustment for instruments in other comprehensive income. Mr. Herz replied that Topic 830 includes numerous disclosure requirements, most of which are required to be presented in total and not by line item. Mr. Linsmeier suggested that in the future the Board may wish to consider a requirement to disclose the foreign currency effect on FV-OCI items, although he noted that such a disclosure may pose cost-benefit concerns.

66. Mr. Smith stated that the problematic guidance in Section 830-20-35 is that equity securities are included in other comprehensive income, which makes determining the foreign currency effect more difficult. He noted that under the staff's recommendation, equity securities would no longer be permitted to be included in other comprehensive income.

Issue 5: Disaggregation of Other Changes in Fair Value

67. Mr. Ampofo stated this issue considers disaggregation of additional fair value changes of financial instruments beyond those components already considered (interest accruals, credit impairment, and residual fair value adjustment). He stated that the research provided to the FASB by the CFA Institute and the FASB's outreach to other entities revealed that disaggregation of those fair values changes were useful because it helps users determine the amount, timing, and uncertainty of future cash flows. Some constituents expressed that while the disaggregation of the credit and liquidity components of a fair value change is helpful information, there are limitations because those components of the changes in fair value are interrelated and separating them

could be difficult, if not impossible, in practice. Those constituents also noted that existing systems cannot handle such disaggregation.

68. The staff provided two alternatives for the Board's consideration. For financial instruments whose fair value changes are recognized in other comprehensive income, Alternative 1 would disaggregate no further changes in fair value beyond (a) credit impairment, (b) interest accruals, and (c) the remainder (other residual changes in fair value). Alternative 2 would disaggregate fair value changes into risk components that are important to the reporting entity's business model.

Staff Recommendation

69. The staff recommends alternative 1.

Issue 5 Board Vote

70. The Board voted in favor of alternative 1, which would require no further disaggregation of changes in fair value of FV-OCI items. All Board members agreed.

Issue 5 Board Comments

71. Ms. Seidman asked if the scope of the staff's recommendation was for financial assets or financial liabilities. She asked if financial liabilities in other comprehensive had to separate a credit portion of a fair value change. Mr. Ampofo stated that an entity would not have to separate credit impairment for financial liabilities. Mr. Linsmeier agreed that separating cumulative credit impairment should be required only for financial assets.

72. Mr. Siegel stated that at the April Board meeting he had not supported separating the credit piece of a change in fair value. However, while he now supports the separation of the credit piece, he does not support further disaggregation and agrees with the staff's recommendation.

Follow-Up Items:

73. Ms. Seidman asked the staff to consider the separate presentation of cumulative credit impairments for acquired loans and present its findings at a future meeting.

General Announcements:

74. Mr. Herz reiterated the project plans that he originally announced at the July 24, 2009 joint meeting with the IASB. Mr. Herz stated that the plan is to issue a proposed Accounting Standards Update for comment at the end of this year or at the end of next year. He stated that the July 15, 2009 Board meeting was the first of many meetings that will continue throughout this year that will cover a whole host of topics. Mr. Herz stated that the FASB understands that accounting for financial instruments is a broad and very important topic that affects financial institutions and many other entities. He stated that there are numerous complex and difficult issues that need to be examined, including measurement basis, techniques, impairments, loan loss allowance, hedge accounting, operationality, presentation, disclosure, and transition.

75. Mr. Herz stated that the IASB also has a financial instrument project on its agenda. In July, it issued an Exposure Draft that addresses certain aspects of a new model on the classification and measurement of financial instruments. Later in 2009, the IASB expects to issue other Exposure Drafts covering different topics, such as hedging. Mr. Herz stated that the FASB and the IASB have scheduled joint roundtable meetings in London, Tokyo, and Norwalk for the first part of September. Mr. Herz stated that the FASB will continue to work with the IASB as both projects progress.

76. Mr. Herz stated that the FASB will conduct extensive outreach throughout the course of this project through field visits and discussions with investors, financial institutions, auditors, and regulators. The Board will redeliberate after the FASB receives comments on the proposed Accounting Standards Update. He stated that

only after extensive and thorough due process would a final Accounting Standards Update be issued, which would be effective no sooner than 2011.

77. Mr. Stoklosa stated that the FASB's website will be updated as the project progresses. He stated that a detailed project plan will be posted to the website that will include information about measurement and recognition, impairment, and hedging. (The project plan was added to the website on August 21, 2009.) He noted that the website currently includes a link to the IASB's model. In addition, a comparison of the FASB's and the IASB's models will be posted to the website.

78. Ms. Maroney updated the Board on the results the staff has received to date on its outreach efforts to constituents about the fair value of deposit liabilities. She noted that the staff currently is reaching out to accounting firms and other constituents to determine the methods used to value core deposit intangible assets. She stated that the staff is also reaching out to users to determine how they would use fair value information about deposit liabilities. She noted that the staff is documenting all alternatives and plans to bring the issue back to the Board in late August or early September. Mr. Herz asked if information was being gathered from regulators. Ms. Maroney stated that information was received from regulators.