MINUTES

Financial Accounting Standards Board

To:	Board Members
From:	Accounting for Financial Instruments Team
Subject:	March 19, 2010 Board Meeting Minutes: Accounting for Financial Instruments
Date:	April 29, 2010
cc:	Sutay

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: Scope Interaction with Topic 815 on Derivatives and Hedging; Interaction with Current U.S. GAAP on Contingencies and Guarantees; and Transition, Transition Disclosures, and Early Adoption
Basis for Discussion:	Memorandums 47, 48, and 50
Length of Discussion:	9:00 a.m. to 12:00 p.m.

Attendance:

Board members present:	Herz, Linsmeier, Siegel, Seidman, and Smith
Board members absent:	None
Staff in charge of topic:	Wilkins (Derivatives and Hedging), Sangiuolo and Yang (Contingencies and Guarantees), and Homant (Transition)
Other staff at Board table:	Golden, Inzano, Laungani, Putnam, and Stoklosa
Outside participants:	None

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

The Board met to discuss issues relating to the development of an Exposure Draft of a proposed Accounting Standards Update on accounting for financial instruments.

The Board's technical plan calls for that document to be issued in the second quarter of 2010.

<u>Summary of Decisions Reached</u>:

Scope Interaction with Topic 815 on Derivatives and Hedging

The Board decided that the following financial instruments, which are excluded from the scope of Derivatives and Hedging (Topic 815 of the *FASB Accounting Standards Codification*™), also would be excluded from the scope of the proposed amendments:

1. Forward contracts related to security trades that are "regular way"
2. Derivatives that are impediments to sale accounting
3. Investment contracts accounted for under Topic 960, Plan Accounting—Defined Benefit Pension Plans
4. A policyholder's investment in a life insurance contract
5. Contracts between an acquirer and seller to enter into a business combination at a future date
6. Contracts that are not exchange-traded if the underlying is any of the following:
    a. A climactic or geological variable
    b. The price or value of a nonfinancial asset or liability of one of the parties to the contract provided that the asset is not readily convertible to cash
    c. Specified volumes of sales or service revenues of one of the parties to the contract. (Vote 5-0)

Although life settlement contracts are not within the scope of Topic 815, the Board decided that those contracts would be within the scope of the financial instruments project.

The Board discussed how an entity would classify interest-only and principal-only strips under its decisions reached to date and whether such instruments should qualify to be recognized at fair value with changes in fair value recognized in other comprehensive income. The Board decided that an entity would be permitted to measure those types of financial assets at fair value with changes in fair value recognized in other comprehensive income if the entity's business strategy is to hold the instrument for collection of contractual cash flows and the following criteria were met:

1. Bifurcation under Topic 815 would otherwise not be required.
2. The instruments could not be contractually prepaid or otherwise settled in such a way that the holder would not recover substantially all of its recorded investment. (Vote 5-0)

Interaction with Current U.S. GAAP on Contingencies and Guarantees

The Board decided that the contingent obligation to make future payments or otherwise transfer consideration under a registration payment agreement should be recognized separately from the debt or equity instrument subject to the agreement and would not be subject to the proposed accounting for financial instruments. (Vote 4-0, 1 abstain)

The Board decided that contingent consideration arrangements would be within the scope of this project if the consideration is based on a financial variable. All other contingent consideration arrangements (for example, arrangements based on a specified volume of sales) would be excluded from the scope of this project. (Vote 5-0)

The Board decided that a standby letter of credit would be accounted for consistently with the Board's previous decision on loan commitments. The issuer would account for the instrument at fair value and classify the instrument based on the classification that would result if the letter of credit was funded. The Board decided that the potential borrower under a financial standby letter of credit would be excluded from the scope of the financial instruments project. (Vote 5-0)

The Board decided that the following would be excluded from the scope of this project:

1. A contract that provides for payments that constitute a vendor rebate
2. A guarantee or an indemnification whose existence prevents the guarantor from being able to either account for a transaction as the sale of an asset that is related to the guarantee's underlying or recognize in earnings the profit from that sale transaction
3. A guarantee or an indemnification of an entity's own future performance
4. A product warranty or other guarantee for which the underlying is related to the performance (regarding function, not price) of nonfinancial assets that are owned by the guaranteed party
5. A guarantee issued either between parents and their subsidiaries or between corporations under common control

6. A parent's guarantee of its subsidiary's debt to a third party (whether the parent is a corporation or an individual)
7. A subsidiary's guarantee of the debt owed to a third party by either its parent or another subsidiary of that parent. (Vote 5-0)

All other financial guarantees would be subject to the scope of this project unless they are included in a scope exception previously discussed by the Board. For example, a guarantee (or an indemnification) that is issued by either an insurance entity or a reinsurance entity and accounted for under Topic 944, Financial Services—Insurance, will be excluded from the scope of this project as a result of the Board's previous decision to exclude all contracts within the scope of Topic 944 from the scope of this project.

Transition, Transition Disclosures, and Early Adoption

The Board decided that the proposed Accounting Standards Update's transition method would be a cumulative-effect adjustment to the balance sheet before the effective date. The prior-period balance sheet would be restated in the first financial statements issued after the effective date of the Update. For example, if the effective date were January 1, 2015, an entity would be required to restate its December 31, 2014 balance sheet in its first quarter filing. (Vote 5-0)

The cumulative-effect adjustment would be calculated in accordance with Topic 250, Accounting Changes and Error Corrections. Transition disclosures will be decided on at a future meeting. The Board decided not to allow early adoption of the proposed Update. (Vote 5-0)

General Announcements: None.