MINUTES

Financial Accounting Standards Board

To:	Board Members
From:	Kubic (x296)
Subject:	November 24, 2009 Board Meeting Minutes: Accounting for Financial Instruments
Date:	March 8, 2010
cc:	Leisenring, Golden, Bielstein, Stoklosa, Lott, Proestakes, Laungani, Mills, Wilkins, Maroney, Sangiuolo, Ampofo, H. Yang, K. Yang, Burnap, Kubic, Willis, C. Smith, Brickman, Homant, Chookaszian, Posta, Glotzer, Mechanick, Gabriele, Sutay, Finden, FASB Intranet, Klimek, McGarity

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Topic:	Accounting for Financial Instruments: Core Deposit Liabilities and Amortized Cost Option
Basis for Discussion:	Board Memorandums No. 16 and No. 17
Length of Discussion:	10:30 a.m. to 12:30 p.m.

Attendance:

Board members present:	FASB: Herz, Seidman, Siegel, and Smith IASB: Leisenring
Board members participating by phone:	FASB: Linsmeier
Staff in charge of topic:	Maroney and Homant
Other staff at Board table:	Golden, Stoklosa, Laungani, Wilkins, Burnap, Sangiuolo, and Kubic

Summary of Decisions Reached:

The Board discussed the definition of a *core deposit* for use in its project on accounting for financial instruments. The Board decided that the definition will include deposits that do not have a contractual maturity that management believes are a stable source of funds.

The Board decided to measure core deposits using the financial instrument with a core deposit intangible asset approach agreed to at a previous meeting. The following summarizes the remeasurement approach agreed to by the Board:

1. The value of the core deposit liability would be determined using a present value of the average core deposit amount discounted by the difference between the alternative funds rate and the all-in-cost-to-service rate over the implied maturity.
2. The core deposit liability amount that would be subject to the remeasurement would be determined as an average amount over the implied maturity time period, which would result in the consideration of future deposits. Considering and valuing future deposits would result in an intangible asset being reflected in the valuation.

The Board agreed that core deposits would qualify for remeasurement changes to be recognized in other comprehensive income. The balance sheet presentation of core deposits would be subject to previous presentation decisions.

Objective of Meeting:

The objective of the meeting was for the Board to make decisions regarding the measurement attribute of core deposit liabilities and to decide which instruments should be eligible for the amortized cost option. The Board decided on a measurement attribute for deposit liabilities, but did not decide which instruments should be eligible for the amortized cost option.

Matters Discussed and Decisions Reached:

CORE DEPOSIT LIABILITIES

1. Ms. Maroney stated that the purpose of the first portion of the meeting was to discuss the definition of a *core deposit* and which measurement attribute should be applied to core deposits. She noted that this topic was previously discussed with

the Board at three Education Sessions on August 5, 2009, September 16, 2009, and November 10, 2009, as well as at a Board meeting on September 23, 2009.

2. Ms. Maroney stated that at the September 23, 2009 meeting, the Board did not decide which measurement attribute should be used to measure core deposit liabilities. However, the Board decided on an approach for remeasurement if the Board were to decide at a future date that such information would be useful to investors. The Board agreed to a remeasurement approach that has the following characteristics:

   a. A present value of the average core deposit liability amount discounted by the difference between the alternative funds rate and the all-in-cost-to-service rate over the implied maturity.

   b. The core deposit liability amount that would be subject to the remeasurement would be determined as an average amount over the implied maturity time period, which would result in the consideration of future deposits. Considering and valuing future deposits would result in an intangible asset being reflected in the valuation.

Issue 1: Core Deposit Definition

3. Ms. Maroney stated that it would be necessary to define the term *core deposit* in order for an entity to implement the core deposit remeasurement approach. She noted that core deposits could be defined as deposits without a maturity that management believes are a stable source of funds. She also noted that this definition would encompass a variety of deposit types, including, but not limited to, noninterest checking, high-yield checking, passbook savings, and money market checking/savings. However, this definition would not include noncore deposits or time deposits. These noncore deposits should be recorded at amortized cost or the face amount. Time deposits, which have a defined maturity and would not be considered core, would be measured at fair value based on the guidance decided upon by the Board for measuring financial assets and financial liabilities within this project unless the amortized cost option is permitted to be applied and is applied.

Issue 1 Staff Recommendation

4. The staff recommended that core deposits be defined as deposits without a maturity that management believes are a stable source of funds.

Issue 1 Board Vote

5. The Board agreed with the staff's recommendation. All Board members agreed.

Issue 1 Board Comments

6. Mr. Herz asked if noncore deposits should be recorded at face value because face value approximated fair value because of the very short implied maturity of those deposits. Ms. Maroney stated that Mr. Herz was correct.

7. Mr. Herz clarified that for time deposits with very short maturities, the fair value of the instrument would become close to the face amount. Ms. Maroney agreed that for time deposits with short maturities fair value approximate the face amount of the instrument. However, she noted that for time deposits with longer maturities, the fair value could be different from the face amount. Mr. Siegel noted that for a time deposit with a five-year maturity, he would expect the fair value to be different from the face amount.

8. Mr. Siegel asked Ms. Maroney if the proposed definition would include clarification beyond the sentence "deposits without a maturity that management believes are a stable source of funds." He expressed concern that the first sentence would not be entirely clear and would lead to misinterpretation among institutions. Mr. Herz stated that he believes that sentence states a broad principle that would prevent abuse in the future. He expressed concern that if the definition included additional language listing the types of instruments that were core deposits, then entities could create new products and structure them to get a desired form of accounting.

9. Mr. Smith asked if the definition of core deposits would explain the accounting treatment for noncore deposits. Ms. Maroney stated that the definition could be expanded to state that "surge balances" in the deposit account would not be

considered core deposits because of an increase in deposits during times of financial uncertainty. Mr. Smith noted that the definition should include language that clearly explains the difference between demand deposits that are considered core deposits and demand deposits that are considered noncore deposits. Mr. Linsmeier stated that it would be important to better explain what is meant by the phrase *stable source of funds.* Ms. Seidman agreed.

10. Mr. Leisenring asked if deposits would have to be designated as "stable and core" or "unstable and noncore" or if there could be a shade of grey between the two categories. Mr. Golden stated that a portion of the balance would be considered stable and a portion would be considered unstable. Mr. Herz agreed with Mr Golden and stated that for each reporting period an entity would look at the deposit base and determine which amount of the deposit base was stable.

11. Mr. Smith asked if the determination definition was designed to determine the amount to be measured or the types of instruments eligible to be measured. Mr. Herz stated that he believes the definition was designed to determine the instruments that could be remeasured. Mr. Golden noted that the term *stable* indicates that the purpose of the definition is to determine the amount to be remeasured. Mr. Golden stated that if the only purpose of the definition is to demonstrate the types of instruments that could be remeasured, then the term *stable* should be removed from the definition and included in the discussion about measurement. Mr. Siegel agreed with Mr. Herz that the definition was designed simply to determine the instruments that could be remeasured, and not the amount of those instruments. Thus, Mr. Siegel stated that the definition could be amended to remove the term *stable.* The measurement section of the guidance it could then explain how stable funds are measured differently than unstable funds.

12. Mr. Leisenring asked how long a core deposit must remain with the bank to be considered a stable source of funds. Mr. Herz stated gave an example of a financial institution that has a customer who invested in a money market account. The financial institution knows the money will remain in that account for approximately 18 months. He stated that there is value in having a cheap source

of funds for an 18-month period, and stated that he would like to capture that value in the financial statements by remeasuring the deposit base. Mr. Leisenring asked Mr. Herz if he would feel differently if the financial institution knew the customer only planned to leave the funds in the money market account for 30 days. Mr. Herz stated that in that situation it would not matter if the amount was recorded at the face amount or at a remeasured amount because the very short maturity would lead to a remeasurement amount that approximates the face amount. Mr. Smith gave Mr. Herz an example in which the FDIC raised the deposit insurance amount to $250,000 for 1 year, prompting a customer to increase the amount in his checking account for exactly 1 year. Mr. Smith asked Mr. Herz if he believes that would be a stable deposit subject to the remeasurement approach. Mr. Herz stated that he believes the increase in deposits that will exist for one year creates a source of value for the institution, and he would include that amount in his core deposit calculation.

13. Mr. Herz stated that he believes it would be difficult to make a cut between a "stable" balance and a "nonstable balance." Mr. Smith noted that the Board had seen presentations and methodologies that demonstrated how that calculation could be done. He noted that those calculations were done by looking at historical data and projecting how that balance would change in the future. Mr. Herz stated that he would like to understand what operational challenges preparers would have and determine an approach that would ease that burden.

14. Ms. Seidman noted that the staff presented to the Board an approach that is similar to the approach used in a business combination. Thus, she believes that approach would be most practical and would most likely be the approach that would have to be used in the future. Ms. Maroney agreed and noted that surge balances are excluded in core deposit intangible calculations in business combinations.

15. Mr. Herz stated that if surge balances were excluded from current core deposit intangible calculations, and if constituents were familiar with that approach, then he would support the definition proposed by the staff.

16. Mr. Siegel stated he would support the staff's recommendation, but would like to clarify what factors make a deposit a stable source of funds.

Issue 2: Measurement Attribute

17. Ms. Maroney stated that staff has identified two potential approaches for measuring core deposits. The first approach would measure core deposits at the face amount. The second approach would measure core deposits using the remeasurement approach that the Board agreed to on the September 23, 2009 Board meeting.

Issue 2 Staff Recommendation

18. The staff was split in its recommendation. A majority of the staff believes that deposits be measured at the amortized cost or face amount. A minority of the staff believes that core deposits should be measured at the financial instrument with a core deposit intangible approach.

Issue 2 Board Vote

19. The Board agreed to a remeasurement approach that has the following characteristics:

    a. A present value of the average core deposit liability amount discounted by the difference between the alternative funds rate and the all-in-cost-to-service rate over the implied maturity.

    b. The core deposit liability amount that would be subject to the remeasurement would be determined as an average amount over the implied maturity time period, which would result in the consideration of future deposits. Considering and valuing future deposits would result in an intangible asset being reflected in the valuation.

20. Three Board members (Herz, Siegel, and Linsmeier) voted for the core deposit remeasurement approach. Two Board members (Smith and Seidman) voted against the core deposit remeasurement approach.

Issue 2 Board Comments

21. Mr. Leisenring asked if an entity would be required to reduce the intangible amount, whether presented as a separate asset or reduction of a liability, as the stability of its deposits base decreased. Mr. Stoklosa stated that the remeasurement approach would not result in a separate asset being recorded, but would result in a reduction of the liability. He noted that as the stability of the deposit base decreases, the value of the liability would increase.

22. Mr. Smith believes deposits should be presented at the face amount. He stated that a depositor can have access to demand deposits at any point in time, which means the financial institution will be forced to exit their position by paying the depositor the full amount. Thus, he believes the face amount is the amount that should be shown on the face of the balance sheet. that showing an amount less than face is misleading because the ultimate amount that can be withdrawn by depositors would be in excess of that amount.

23. Mr. Siegel stated that his objective in this project is to provide better information about loans. He stated that current data indicates about one in four mortgage loans is currently underwater, and he believes that information is not transparent by looking at the balance sheets of financial institutions. Thus, he noted his support for the FV-OCI approach for loans because that approach is the best way to measure the value of the loans and to present the information. He stated that many investors believe if interest rate sensitivity will be captured in the fair value of the loans, then the interest rate sensitivity of deposits should be captured. He noted this sensitivity would not be captured by measuring deposits at their face value. He stated that the remeasurement approach would not arrive at a fair value, but would result in a calculated number being presented on the face of the balance sheet and that number would neither reflect the ultimate amount owed to depositors nor the true fair value of the deposit base. However, he noted that this number would demonstrate how interest rates impact the liability side of the balance sheet, which is extremely important when analyzing a company.

24. Mr. Siegel mentioned that in staff outreach, the staff was consistently told that about 80 percent of loans are funded by deposits, and, thus, the measurement attributes should align for those financial instruments. He noted that many investors want to understand duration mismatches. He stated the he believes a measurement attribute should not be expected to capture duration mismatches, and that a remeasurement approach for deposits would not highlight such mismatches. However, he noted that the remeasurement approach would provide a better set of data, which would allow an investor to perform further analysis.

25. Mr. Siegel noted that deposits are often the key source of value for a financial institution. He noted that this approach would provide additional information about the deposit base, and thus he supports the remeasurement approach.

26. Mr. Linsmeier stated that the amortized cost amount would still be presented on the face of the balance sheet, so requiring the remeasured amount to also be reported would provide additional information to users without taking away any information that is provided today. He stated that the remeasurement approach would provide additional value and insight to investors, and thus expressed support for the deposit remeasurement approach.

27. Ms. Seidman stated that she does not support the remeasurement approach for several reasons. First, she noted that the remeasurement approach is not a fair value, and thus the Board would be introducing a new measurement attribute. She noted that an objective of this project is to reduce complexity and adding a measurement attribute would simply increase complexity. Second, she noted that all of the inputs to this model are highly subjective. She stated that investors currently lack confidence in some of the numbers being reported by financial institutions. She noted that this approach would result in a majority of the liabilities of a depository institution being measured at an attribute whose key inputs are not transparent. She expressed concern that investors would not have confidence in the remeasurement number, and thus would not use it in their analyses. She noted that measuring deposits at the face amount would be highly objective and would not provide reliable information.

28. Ms. Seidman noted that about half of investors support a remeasurement approach, while the other investors expressed significant concern. She noted that it would be important to consider the cost that an entity would incur to provide this information because investors were not unified. She stated that at the recent Valuation Resource Group meeting, it became evident that a remeasurement approach would be very complex and very costly. Thus, she believes the benefits would not exceed the cost.

29. Ms. Seidman also noted that the IASB has not considered and has no plans to consider a remeasurement attribute for core deposits. She noted that an objective of this project is convergence. She stated that the measurement deposits at a remeasurement approach would not result in convergence. Thus, she believes the remeasurement approach is not an appropriate measurement. She noted that she would consider a disclosure that provides some of the information about the inputs.

30. Mr. Herz noted that measuring deposits at the face amount does not capture the economics of the situation. He stated that if loans are presented at fair value, and deposits are presented at the face amount, then the balance sheet would provide a very distorted picture of the financial health of a company. He believes that presenting only the face value of deposits does not provide the best information possible.

31. Mr. Herz stated that he is concerned about operationality and cost-benefit considerations. However, he noted that some of the feedback indicates that this approach could be operational and would not be prohibitively costly. He stated that as the Board moves forward with this project, he would be interested in learning what additional operational challenges preparers might have and addressing those issues. Thus, he expressed support for the deposit remeasurement approach.

Issue 3: Presentation

32. Ms. Maroney stated that because the Board decided on a remeasurement approach for deposits, it would be important to decide how to present that information. She stated that the following approach could be used for presentation:

    a. Deposits—Face amount
    b. Less—Adjustment
    c. Deposits—Remeasured.

Ms. Maroney noted that this approach would be consistent with the approach used to measure financial liabilities in the FV-OCI category.

Issue 3 Staff Recommendation

33. Ms. Maroney stated that the staff recommends the presented of deposits at a face amount, less an adjustment, and then deposits at the remeasured amount.

Issue 3 Board Vote

34. The Board decided that changes in the remeasurement amount of the deposit liability could be presented in net income or in other comprehensive income. The Board supported the presentation approach in paragraph 32 for deposits liabilities for which the remeasurement amount is presented in other comprehensive income. The Board members decided the if changes in the remeasurement amount were presented in net income, the deposit liability should be presented in one line at the remeasurement amount with parenthetical disclosure of the face amount. All Board members agreed.

Issue 3 Board Comments

35. Ms. Seidman asked if changes in the adjustment account would be presented in net income or in other comprehensive income. Mr. Golden stated that because deposits will be held until payment of contractual cash flows, changes in their balance should be presented in other comprehensive income. He noted that most loans will be measured, with the fair value adjustment being presented in other comprehensive income, thus there was alignment between loans and deposits. Ms.

Seidman noted that under the current classification model, an entity could elect to present all changes in fair value in net income for any instrument. She asked if that would be allowed for the deposit remeasurement approach. Mr. Stoklosa stated that an entity would be allowed to present changes in the remeasurement amount of the deposit liability in net income.

36. Ms. Seidman noted that if an entity decided to present the changes in the remeasurement amount in net income, then that entity should still be required to disclose the face amount. Mr. Linsmeier noted that for other traditional debt instruments classified in the FV-NI category, the Board had decided to require parenthetical disclosure of the amortized cost amount on the face of the balance sheet. He stated that it would be consistent to use a similar approach for deposit liabilities.

AMORTIZED COST OPTION

Issue 4: Amortized Cost Option

37. Mr. Homant stated that at the July 15, 2009 Board meeting, the Board discussed an amortized cost election for certain financial liabilities. The Summary of Decisions Reached on the project update for accounting for financial instruments on the FASB's website states the following:

> Certain types of an entity's own debt may be measured at amortized cost if the entity's business strategy is to hold the financial liability for payment(s) of contractual cash flows rather than to sell or settle the financial liability with a third party and measuring the financial liability at fair value would create a measurement attribute mismatch.

38. Mr. Homant stated that the decision at the July 15, 2009 meeting did not indicate which financial liabilities would be eligible for the amortized cost option, and did not indicate how an entity would perform the evaluation of a measurement attribute mismatch. He noted that an accounting attribute mismatch referred solely to the measurement attribute of the assets and liabilities.

39. Mr. Homant stated that the staff was presenting five alternatives for the Board's consideration. Alternative 1 would base the amortized cost option on an accounting mismatch. This alternative is consistent with the Board's decision at the July 15, 2009 Board meeting. He stated that this alternative would permit financial liabilities that qualify for the FV-OCI category to be eligible for the election if measuring the financial liability at fair value would create or exacerbate an accounting measurement attribute mismatch.

40. Alternative 1A would base the amortized cost option on an accounting mismatch at the operating segment level. Mr. Homant noted that this alternative is similar to Alternative 1, with the addition of defining at which level of a company the evaluation of an accounting mismatch would be performed. This alternative would require that the evaluation about whether an accounting mismatch is created or exacerbated be performed on an operating segment basis.

41. Mr. Homant stated that Alternative 2 would make the amortized cost option available for any instrument eligible for classification in the FV-OCI category. He noted that this alternative would be available to all entities and all qualifying financial liabilities. It would broaden the eligibility of financial liabilities for which the amortized cost option could be elected. However, it would still require an entity to filter out those liabilities that are required to be classified as FV-NI either because the entity's business strategy is not to hold the liability for payment or because it is a hybrid that is required to be bifurcated under Accounting Standard Codification Topic 815 on derivatives and hedging. This option does not segregate based on type of entity, and does not require an entity to recognize changes in its own credit for financial liabilities classified as FV-OCI to be recognized in net income or other comprehensive income.

42. Mr. Homant stated that Alternative 3 would permit amortized cost measurement for most financial liabilities, with some exceptions. Therefore, most financial liabilities, regardless of whether the classification guidance would cause them to fall into the FV-NI or FV-OCI category, would be eligible to be measured at amortized cost. To preserve current practice, those financial liabilities that would

not be permitted to be measured at amortized cost are derivative liabilities and obligations to return securities sold short (short sales).

43. Mr. Homant noted that Alternative 3 does not require an entity to determine whether the liability could be classified as FV-OCI to qualify for amortized cost measurement. However, this alternative would require the Board to reconsider retaining the requirement to bifurcate hybrid financial liabilities such that the embedded derivative would continue to be measured at fair value and the host debt instrument would be measured at amortized cost. If the Board were to go in this direction, this alternative would result in an amortized cost measurement attribute for most financial liabilities with a fair value option and a requirement to bifurcate hybrid financial liabilities.

44. Mr. Homant stated that Alternative 4 would eliminate the amortized cost option and require all liabilities to be classified as FV-NI or FV-OCI.

Issue 4 Staff Recommendation

45. Mr. Homant stated that the staff is split between Alternatives 2 and 4.

Issue 4 Board Vote

46. The Board did not make a decision at this Board meeting. The Board decided that additional research should be performed before addressing this issue in the future. All Board members agreed.

Issue 4 Board Comments

47. Mr. Herz stated that the FASB decided to discuss the measurement of liabilities jointly with the IASB in the first quarter of 2010. He stated that these discussions would address, among other topics, the counterintuitive result of measuring a change in an entity’s own credit.

48. Mr. Siegel stated that it would be difficult for entities to demonstrate a link between an asset and its funding source, and he expressed concern about the

operationality of an amortized cost option based on an accounting attribute mismatch. Thus, Mr. Siegel stated his support for Alternative 2.

49. Mr. Leisenring asked if the amortized cost option would be eligible for deposits. Mr. Homant stated that deposits would not be eligible for the amortized cost option. Mr. Linsmeier agreed with Mr. Homant. Mr. Stoklosa stated that he believed deposits would be eligible for the amortized cost election if the appropriate criteria were met.

50. Mr. Linsmeier expressed significant concern about selecting Alternative 2 or 3. He noted that a key objective of this project is to provide information about mismatches between assets and liabilities. He stated that by requiring fair value for both assets and liabilities, investors would have insight as to the mismatches that exist. He noted that Alternative 2 or 3 would result in a majority of liabilities being measured at cost. Thus, he expressed support for Alternative 1 because it would be possible to make it operational. He stated that if Alternative 1 was not operational, then he would support Alternative 4 and would not allow an amortized cost option.

51. Ms. Seidman stated that the standard on accounting for financial instruments should limit options because options reduce comparability among entities. She noted that the tentative model would require all financial liabilities to be measured at fair value, including "plain vanilla" debt instruments held by nonfinancial institutions. She noted that she is not aware that any constituents who believe that there should be a change to the accounting for such debt instruments. She stated that Alternative 1 would create significant complexity for nonfinancial institutions.

52. Ms. Seidman noted that the Financial Crises Advisory Group strongly advised the Boards to consider the appropriateness of recognizing gains and loss from a change in an entity's own credit. She noted, however, that measuring all financial liabilities at fair value would increase the magnitude of this problem and would be in conflict with the recommendation of the Financial Crises Advisory Group.

53. Ms. Seidman also noted that she wished to deliberate this issue with the IASB. She stated that she did not wish to address this issue at this time, but she would vote for Alternative 2 if she was compelled to make a decision. However, she noted that she would allow the amortized cost option for deposits.

54. Mr. Leisenring asked how convertible debt would be classified. Ms. Sangiuolo stated that the tentative classification model would allow convertible debt to be classified as FV-OCI, and, thus under some alternatives, it would be eligible for amortized cost. Mr. Golden noted that after the project on financial instruments with characteristics of equity was completed, convertible debt would most likely be required to be measured at FV-NI and, thus, would not be eligible for the amortized cost option.

55. Mr. Smith stated that he believes that not all liabilities should be measured at fair value. He stated that most of the problems in the current credit crisis are with the asset side of the balance sheet. He noted that changing the primary measurement attribute for all liabilities would create significant complexity for nonfinancial institutions. He stated that believes Alternative 1 is operational. He noted that he believes the scope of the project should be changed to only account for financial assets.

56. Mr. Smith stated that under any of the alternatives, fair value would still be the primary measurement attribute for financial liabilities. He noted that 85 percent of Fortune 500 companies are not financial institutions, and thus would try to elect the amortized cost option. He stated that he believes it would be improper accounting to require a majority of institutions to elect an option.

57. Mr. Smith stated that he believes amortized cost would be the most relevant measurement attribute for most financial liabilities. He noted that he does not believe an objective of the project was to provide information about an entity's asset-liability management. Moreover, he noted that if that was an objective of this project, fair value would still not provide such information, and he believes such information would be best provided in a footnote disclosure. He noted that he would not support any of the alternatives as they are currently written. He

noted that he would support Alternative 2 or 3, but would revise the wording so that amortized cost was the primary attribute, with a fair value option.

58. Mr. Herz agreed with Mr. Smith that it would be inappropriate to have an option that nearly all nonfinancial institutions would chose to elect. He agreed that for such institutions, the amortized cost would be a relevant measurement attribute for plain vanilla debt. He stated that if Alternative 2 was selected, he would like to see it revised to address Mr. Smith's concerns. However, Mr Herz noted that his mindset could change as discussions are held with the IASB on financial liabilities. Mr. Herz noted that if financial liabilities were measured at an attribute that excluded changes in own credit, then he may support requiring that measurement attribute in more circumstances.

59. Ms. Seidman noted that the link between assets and the liabilities funding them was important to understand because each side of the balance sheet had similar sensitivity to interest rate risk. Thus, she noted if the measurement attribute of the assets was affected by interest rate sensitivity, then the measurement attribute of the liability should capture interest rate sensitivity. However, she noted that in addition to capturing interest rate sensitivity, a fair value measurement attribute would capture changes in credit quality. She also noted that the credit exposure on the asset side is different from the exposure to own credit on liability side. Mr. Leisenring noted there was some link, because credit exposure on both the asset side and the liability side was affected by a change in the price of credit. Mr. Linsmeier noted there also was a link because a significant deterioration in the credit quality of an entity's assets would affect its ability to settle its debt, and thus the credit quality of its own debt would deteriorate. Ms. Seidman noted that such a linkage could be illustrated in disclosures.

60. Mr. Golden noted that he heard some Board members stating that if an asset is remeasured, then the liability that funds that asset should be remeasured. He noted that the Board had acknowledged that loans are funded by deposits, and thus chose to remeasure deposits because loans would be remeasured. He proposed that the staff consider ways that other liabilities can be remeasured.

61. Mr. Leisenring stated that he believes a viable solution would be to state that the classification and measurement model applies to all financial assets. Financial liabilities, except derivatives and deposits, would be measured at amortized cost with a fair value option that entities who are concerned about the asset-liability mismatch can elect to carry their liabilities at fair value. Mr. Golden stated that he believes an approach similar to Mr. Leisenring's example would be operational, but he would not want an option to exist. Rather, Mr. Golden proposed requiring that all liabilities, other than deposits and derivatives, be measured at amortized cost unless the liability funds a financial asset, in which case the liability would be required to be measured at fair value. Mr. Leisenring stated that Mr. Golden's approach would still require entities to demonstrate a link, which would create operational problems. Mr. Golden stated that under his approach he believes most liabilities would be at cost, except for liabilities related to securitizations, deposits or derivatives.

62. Mr. Golden stated that the staff's analysis indicated that Alternative 1 would create operational problems. Mr. Linsmeier stated that he believes Alternative 1 would not cause an operational problem. He stated that under Alternative 1, an institution would first look for specific linkage between an asset and its funding source. Then, the entity would look at the remaining assets and liabilities, and if a majority of the assets were at cost, then the entity could carry all liabilities at cost. If a majority of the assets were at fair value, then the entity would be required to carry all liabilities at fair value. Mr. Smith expressed significant concern about using that approach.

63. Ms. Sangiuolo stated that Alternative 1 could result in an entity having 60 percent of its assets at fair value and all of its liabilities at fair value, which some constituents would find troublesome. Mr. Homant stated that he believes Alternative 1 would be appropriate in a very simple business model, but believes it would not be operational for large conglomerate corporations. He stated that such an approach would create structuring opportunities and would result in different entities reaching different conclusions.

64. Mr. Linsmeier expressed concern about any approach that would allow financial institutions to record a majority of their liabilities at amortized cost. He noted that such an approach would be inconsistent with the deposit remeasurement approach, the purpose of which is to highlight the link between an asset and its funding source. He noted that additionally research should be performed before the Board makes any decisions.

65. Mr. Golden asked if any Board members believe all financial liabilities should be measured at fair value. Mr. Linsmeier stated that he would support that approach. Mr. Golden then asked which Board members believe the measurement of a financial liability should match the measurement of the assets. Mr. Herz agreed with that approach, but wished to delay making any decisions until after the joint discussions with the IASB in January 2010.

66. Mr. Linsmeier stated that he believes the approach the Board was leaning toward would require a different measurement attribute for liabilities depending on the entity. For a financial institution, he believes the Board would support requiring a high majority of liabilities to be measured at fair value. He noted that this objective could be achieved by stating that financial institutions would not be eligible to elect the amortized cost option. For a nonfinancial institution, he believes the Board would support requiring a high majority of liabilities to be measured at amortized cost. He noted that the problem was entities that are a mixture of a financial institution and a nonfinancial institution.

Follow-Up Items:

None.

General Announcements:

None.