MINUTES

FINANCIAL ACCOUNTING STANDARDS BOARD

MEMORANDUM

To:	Board Members
From:	Accounting for Financial Instruments Team: Credit Losses Implementation
Subject:	Minutes of December 13, 2017 Board Meeting
Date:	December 19, 2017

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.

<u>Topic</u>:	Transition Resource Group for Credit Losses
<u>Basis for Discussion</u>:	FASB Memo No. 11, *Update on Implementation Activities*, No. 12 *Subsequent Events*, No. 13 *Variable-Rate Financial Assets*, and No. 14, *Using a Prepayment-Adjusted Effective Interest Rate as of the Adoption Date for Troubled Debt Restructurings*
<u>Length of Discussion</u>:	8:00 a.m. to 8:45 a.m. (EST)

<u>Attendance</u>:

Board members present:	Golden, Kroeker, Siegel, Botosan, Monk, Schroeder, and Hunt
Board members absent:	None
Staff in charge of topic:	Drucker and Romano
Other staff at Board table:	Cosper, Kuhaneck, Kinley, and Cline
Outside participants:	None

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

The Board met to discuss the general activities for and issues relating to the implementation of Accounting Standards Update No. 2016–13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.*

<u>Tentative Board Decisions</u>:

The Board discussed general implementation activities associated with Accounting Standards Update No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,* as well as the following three specific issues:

1. Troubled debt restructurings (TDRs): Transition for entities that elect to use a prepayment-adjusted effective interest rate (EIR) in a discounted cash flow (DCF) method to measure credit losses

2. Variable-rate financial assets: Projections of changes in the independent factor or factors that determine the contractual interest rate on a variable-rate financial asset for the purposes of determining the EIR and estimating expected future cash flows

3. Subsequent events: Consequential amendments made to Topic 855, Subsequent Events.

Troubled Debt Restructurings (TDRs)

The Board decided to provide transition relief for entities that elect to use a prepayment-adjusted EIR in a DCF approach to measure credit losses on TDRs that exist as of the adoption date. As a result of this relief, entities would not be required to calculate the prepayment-adjusted EIR for each TDR as of the date preceding the asset restructure in accordance with the consensus reached by the Transition Resource Group (TRG) at the June 12, 2017 public meeting. Instead, entities may calculate the prepayment-adjusted EIR based on the original contractual terms of the loan and prepayment assumptions as of the date of adoption.

(Vote: 7-0)

The Board decided that this decision will be communicated to stakeholders as an addendum to the June 12, 2017 TRG meeting minutes posted on the TRG website.

(Vote: 6-1)

Variable-Rate Financial Assets

The Board decided to allow entities to determine the EIR and expected cash flows (including expected prepayments and defaults) using their own expectations (projections) of future interest rate environments when estimating credit losses on variable-rate financial assets using a DCF method provided those expectations are reasonable and supportable. However, the use of projections will not be required. To reflect this decision, an amendment to the FASB Codification will be drafted as a part of the ongoing Codification improvements project.

(Vote: 7-0)

Subsequent Events

The Board decided that when determining an estimate of credit losses, an entity should not recognize in the financial statements the effects of any events that occur after the balance sheet date but before financial statements are issued or are available to be issued. However, subsequent events should be reflected in the estimate of credit losses if an entity determines an error correction is necessary under Topic 250, Accounting Changes and Error Corrections.

(Vote: 6-1)

General Announcements: None.