

MINUTES



MEMORANDUM

To: Board Members

From: Accounting for Financial Instruments
Team: Credit Losses
Implementation

Subject: Minutes of August 29, 2018 Board Meeting

Date: September 5, 2018

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: Financial Instruments—Credit Losses

Basis for Discussion: FASB Memo No. 12, "Codification Improvements—Update 2016-13, *Financial Instruments—Credit Losses*"

Length of Discussion: 9:30 a.m. to 10:00 a.m. (EDT)

Attendance:

Board members present: Golden, Kroeker, Botosan, Buesser, Hunt, and Schroeder

Board members absent: None

Staff in charge of topic: Shah

Other staff at Board table: Cospers, Kuhaneck, Romano, LaFrano, and Jepsen

Outside participants: None

Type of Document and Timing Based on the Technical Plan:

The Board met to discuss 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*.

Tentative Board Decisions:

The Board discussed and made decisions related to the following issues as a follow-up to the June 11, 2018 meeting of the Transition Resource Group for Credit Losses:

1. Topic 1A: Capitalized Interest
2. Topic 1B: Refinancing and Loan Prepayments
3. Topic 2A: Inclusion of Accrued Interest in Defining Amortized Cost Basis
4. Topic 2B: Reversal of Accrued Interest on Nonaccrual Loans
5. Topic 3: Transfers of Loans and Debt Securities between Categories
6. Topic 4: Recoveries.

Topic 1A: Capitalized Interest and Topic 1B: Refinancing and Loan Prepayments

The Board decided that no amendments to Accounting Standards Update No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, are necessary for issues raised by stakeholders related to (a) capitalized interest and (b) refinancing and loan prepayments. **(Vote: 6-0)**

Topic 2A: Inclusion of Accrued Interest in Defining Amortized Cost Basis

The Board decided to provide relief for the measurement, presentation, and disclosure requirements for accrued interest receivable balances. Specifically, the Board decided to amend the guidance to allow entities to:

1. Measure the allowance for credit losses on accrued interest receivable balances separately from other components of the amortized cost basis of associated financial assets and net investments in leases. **(Vote: 6-0)**
2. Make an accounting policy election to present accrued interest receivable balances and the related allowance for credit losses for those accrued interest receivable balances separately from the associated financial assets and net investments in leases on the balance sheet. If the accrued interest receivable balances and the related allowance for credit losses are not presented as a separate line item on the balance sheet, an entity would be

required to disclose the amount of accrued interest receivable balances and the related allowance for credit losses and where the balance is presented (that is, which line item on the balance sheet). **(Vote: 6-0)**

3. Elect a practical expedient to meet the disclosure requirements for certain disclosures. For example, an entity may disclose the total amount of accrued interest receivable instead of tracing accrued interest amounts included in amortized cost basis to each origination year and by class of financing receivable for vintage disclosures. **(Vote: 6-0)**

Topic 2B: Reversal of Accrued Interest on Nonaccrual Loans

The Board decided to amend the guidance to allow entities to:

1. Make an accounting policy election to reverse accrued interest either by an adjustment to interest income or by writing off accrued interest amounts by deducting from the allowance for credit losses. **(Vote: 6-0)**
2. Make a separate accounting policy election to exclude accrued interest receivable balances from the calculation of the allowance for credit losses. The accounting policy election would be contingent on the entity having an accounting policy in place that results in the timely reversal or writeoff of any unpaid accrued interest. **(Vote: 6-0)**

Both accounting policy elections would be made at the class of financing receivable or major security type level.

Topic 3: Transfers of Loans and Debt Securities between Categories

The Board decided to amend the guidance to:

1. Require entities to reverse an existing valuation allowance or allowance for credit losses for loans and debt securities prior to the transfer of financial assets between held-for-sale and held-for-investment or available-for-sale and held-to-maturity categories. Subsequent to the transfer, an entity would be required to establish an appropriate valuation allowance or allowance for credit losses, whichever is applicable. **(Vote: 6-0)**
2. Make existing writeoff guidance applicable to all transfers of financial assets between held-for-sale and held-for-investment or available-for-sale and held-to-maturity categories. **(Vote: 6-0)**
3. Require entities to present all transfers between categories on a gross basis in the income statement. **(Vote: 6-0)**

Topic 4: Recoveries

The Board decided:

1. To amend the guidance to require entities to consider expected recoveries when measuring the allowance for credit losses. **(Vote: 6-0)**
2. To amend the guidance to limit the scope of expected recoveries to only include amounts collected from the borrower. **(Vote: 6-0)**
3. An entity should not include fair value amounts greater than the amortized cost basis of financial assets for purposes of measuring the allowance for credit losses at the reporting date. However, the Board directed the staff to include a question in the proposed Update focused on extending recoverable amounts to include payments from the sale of delinquent financial assets or underlying collateral. **(Vote: 6-0)**

Next Steps

The Board will discuss the cost-benefit analysis, permission to ballot, and comment-period for a proposed Update at its September 5, 2018 Board meeting.

General Announcements: None.