

## MINUTES



## MEMORANDUM

**To:** Board Members

**From:** Accounting for Financial Instruments  
Team: Credit Losses  
Implementation

**Subject:** Minutes of November 7, 2018 Board Meeting

**Date:** November 14, 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: Codification Improvements—Financial Instruments

Basis for Discussion: FASB Memo No. 13, "Transition Resource Group for Credit Losses"

Length of Discussion: 9:00 a.m. to 10:15 a.m. (EST)

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: Kuhaneck, Romano, Shah, Cryderman, LaFrano, and Jepsen

Outside participants: None

**Type of Document and Timing Based on the Technical Plan:**

The Board met to discuss feedback received at the November 1, 2018 Credit Losses Transition Resource Group (TRG) meeting and deliberated issues related to proposed Accounting Standards Update, *Codification Improvements—Financial Instruments*.

**Tentative Board Decisions:**

The Board discussed feedback received at the November 1, 2018 Credit Losses Transition Resource Group (TRG) meeting and proposed making amendments to the guidance in Topic 326.

The Board decided to amend the guidance in Topic 326 for each of the following topics:

1. *Recoveries*. The Board decided to reaffirm its prior decision from the August 29, 2018 meeting that an entity should be required to include recoveries in determining the allowance for credit losses. The Board also decided to reverse its decision from the August 29, 2018 meeting that limited recoveries to amounts from the borrower in the allowance for credit losses. **(Vote 6-0)**
2. *Negative Allowances*. The Board decided that an entity should be permitted to record a negative allowance on financial assets so long as the negative allowance does not exceed the aggregate amount of previous or expected writeoffs of the financial asset(s). For financial assets within the scope of the collateral-dependent guidance (see paragraph 326-20-35-4 through 35-5), the Board decided that an entity should be permitted to record a negative allowance for the increase in fair value so long as the net amount expected to be collected does not exceed amounts previously written off. **(Vote 6-0)**
3. *Vintage Disclosures: Gross Writeoffs and Gross Recoveries*. The Board decided to clarify that gross writeoffs and gross recoveries should be presented by vintage year and class of financing receivable within the credit quality information vintage disclosure described in paragraph 326-20-50-6. **(Vote 4-2)**
4. *Vintage Disclosures: Line-of-Credit Arrangements That Convert to Term Loans*. The Board decided that an entity should be required to disclose amounts of line-of-credit arrangements that are converted to term loans by origination year when an additional credit decision after the original credit decision was made by the entity. The Board also decided that an entity should not be required to disclose amounts of line-of-credit arrangements that are converted to term loans by origination year if no additional credit

decision after the original credit decision was made by the lender or that are converted to term loans because of a troubled debt restructuring. Instead, an entity should disclose these line-of-credit arrangements in a separate column within the vintage disclosure. **(Vote 6-0)**

5. *Contractual Extensions*. The Board decided that an entity should be required to evaluate extension or renewal options (excluding those that are accounted for as derivatives in Topic 815, Derivatives and Hedging) that are included in the original or modified contract and are not unconditionally cancellable by the entity in determining the contractual term of a financial asset(s). **(Vote 6-0)**

The Board decided to retain the existing guidance in Topic 326 for the following topic:

1. *Discounting Cash Flows When Using a Method Other Than a Discounted Cash Flow Method*. The Board decided that no further clarifications in the guidance were needed with respect to the role of discounting when using a method other than a discounted cash flow method. **(Vote 6-0)**

#### *Analysis of Costs and Benefits*

The Board concluded that it has received sufficient information and analysis to make an informed decision on the topics of recoveries, negative allowances, vintage disclosures of line-of-credit arrangements that convert to term loans, and contractual extensions and that the expected benefits of the proposed amendments justify the expected costs. **(Vote 6-0)**

The Board concluded that it has received sufficient information and analysis to make an informed decision on the presentation of gross writeoffs and gross recoveries within the vintage disclosure and that the expected benefits of the proposed amendments justify the expected costs. **(Vote 5-1)**

#### *Next Steps*

The Board directed the staff to:

1. Incorporate the proposed amendments on recoveries, negative allowances, vintage disclosures of line-of-credit arrangements that convert to term loans, and contractual extensions in a proposed Accounting Standards Update on Codification Improvements—Financial Instruments, for vote by written ballot with a 30-day comment period. That proposed Update also will include other proposed amendments discussed and approved by the Board at its August 29, 2018, and September 5, 2018 meetings. **(Vote 6-0)**

2. Incorporate the proposed amendments to vintage disclosures of gross writeoffs and gross recoveries in a separate proposed Accounting Standards Update on Codification Improvements—Financial Instruments—Credit Losses (Vintage Disclosures: Gross Writeoffs and Gross Recoveries), for vote by written ballot with a 60-day comment period. **(Vote 5-1)**

**General Announcements:** The FASB recently posted on its website an educational staff paper that provides implementation examples to help private company franchisors preparing to implement Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*.