MINUTES

Financial Accounting Standards Board

To:	FASB Board Members		
From:	Accounting for Financial Instruments Team		
Subject:	June 15, 2011 Joint Board Meeting Accounting for Financial Instruments: Impairment	**Date:**	June 15, 2011

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: Impairment

Basis for Discussion: FASB – Memorandum 99
IASB – Agenda Paper 8

Length of Discussion: 5:15 a.m. to 7:00 a.m. EDT

Attendance:

Board members present: FASB: Seidman, Golden, Linsmeier, Siegel, Smith, Buck, and Schroeder (London)

IASB: Tweedie, Cooper, Danjou, Engstrom, Finnegan, Konig, Pacter, Smith, Gomes, Kalavacherla, Scott, Wei-Guo, McGregor, Yamada, and McConnell (London)

Board members absent: None

Staff in charge of topic: IASB: Strekenbach

Other staff at Board table: IASB: Glen, Friedhoff, and Lloyd

Outside participants: FASB: Stoklosa, Keller, and Roberge

Type of Document and Timing Based on the Technical Plan:

The Board met to discuss issues relating to the development of a final Accounting Standards Update addressing the accounting for financial instruments. The Board's technical plan calls for that document to be issued in 2011.

Summary of Decisions Reached:

The IASB and the FASB discussed a "three-bucket" expected loss approach for the impairment of financial assets.

The guiding principle of the "three-bucket" approach is to reflect the general pattern of deterioration of credit quality of loans. Allowance balances would be established for all financial assets subject to impairment accounting. The different phases of the deterioration in credit quality are captured through the "three buckets" that determine the allowance balance. Generally, the "three-bucket" approach would encompass the following:

1. **Bucket 1:** In the context of portfolios, assets evaluated collectively for impairment that do not meet the criteria of Bucket 2 or 3 (this would include loans that have suffered changes in credit loss expectations as a result of macroeconomic events that are not particular to either a group of loans or a specific loan).

2. **Bucket 2:** Assets affected by the occurrence of events that indicate a direct relationship to possible future defaults, however the specific assets in danger of default have not yet been identified.

3. **Bucket 3:** Assets for which information is available that specifically identifies that credit losses are expected to, or have, occurred on individual assets.

The Boards decided to continue to develop the "three-bucket" approach. In addition, the Boards agreed with the broad approach to distinguish between the buckets on the basis of credit risk deterioration. The Boards decided that the allowance balance of Buckets 2 and 3 should be the remaining lifetime expected loss estimate.

The Boards provided the following direction to the staff for future deliberations:

1. Pursue an approach for Bucket 1 with an overall objective of recognizing an impairment allowance equal to 12 months' worth of expected losses based on initial expectations plus the full amount of any changes in expected credit losses. However, the Boards also noted the operational complexities of such a model and directed the staff to consider how to

operationalize the approach.

2. The Boards noted the importance of having clear and well-defined indicators and guidance related to when to transfer assets between Buckets 1, 2, and 3. Therefore, they instructed the staff to further develop criteria to determine which of the three buckets financial assets should be attributed to.

The Boards decided unanimously on the above decisions.