MINUTES

Financial Accounting Standards Board

To:	FASB Board Members		
From:	Accounting for Financial Instruments Team		
Subject:	February 28, 2012 Joint Board Meeting—Accounting for Financial Instruments: Impairment	**Date:**	March 1, 2012

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: Memorandums 135–137 IASB: Agenda Papers 4–4C
Length of Discussion:	5:50 a.m. to 7:45 a.m. EST

Attendance:

Board members present:	FASB: Seidman, Buck, Golden, Linsmeier, Schroeder, Siegel, and Smith (London) IASB: Hoogervorst, Mackintosh, Cooper, Danjou, Engstrom, Finnegan, Gomes, Kalavacherla, McConnell, Ochi, Pacter, Scott, Smith, Wei-Guo (London)
Board members absent:	none
Staff in charge of topic:	Glen and Cancro
Other staff at Board table:	FASB: Stoklosa, Handy, and Kane IASB: Lloyd, Friedhoff, Streckenbach, and Rees
Outside participants:	Sangiuolo and Watanabe

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

The Board met to discuss issues relating to the development of an Accounting Standards Update addressing the accounting for financial instruments. The Board's technical plan calls for an exposure document to be issued in the second half of 2012.

<u>Summary of Decisions Reached</u>:

In continuing to develop the "three-bucket" impairment model, the FASB and the IASB discussed whether financial assets categorized in Bucket 2 or Bucket 3 (either by deterioration or, in the case of purchased financial assets with an explicit expectation of loss, upon acquisition) would be required to be subsequently transferred to Bucket 1, and, if so, under which circumstances. That is, the Boards discussed whether the measurement of financial assets' expected credit losses should subsequently change from a lifetime expected loss (for financial assets in Bucket 2 or Bucket 3) to a 12 months' expected loss (for financial assets in Bucket 1). In addition, the Boards discussed how the impairment model would be applied to trade receivables.

Direction of Movement between Buckets

Purchased Financial Assets with an Explicit Expectation of Loss

The Boards tentatively decided that purchased financial assets with an explicit expectation of loss would always be categorized outside Bucket 1, even if there are improvements in credit quality after purchase. As a result, the impairment allowance for such assets would always be based on changes in lifetime expected credit losses since initial recognition.

Fourteen IASB members and seven FASB members agreed.

Originated and Other Purchased Financial Assets

The scope of this part of the discussion included financial assets other than (1) purchased financial assets with an explicit expectation of loss, (2) trade receivables that use lifetime expected credit losses as the impairment measure upon initial recognition, and (3) restructured debt.

The Boards tentatively decided that these financial assets would subsequently transfer to Bucket 1 (after previously deteriorating and transferring to Bucket 2 or Bucket 3) if the initial transfer notion from Bucket 1 is no longer met.

Thirteen IASB members and four FASB members agreed.

Trade Receivables

In this session, the Boards discussed whether an incurred loss impairment approach or an expected loss impairment approach should apply to trade receivables. Furthermore, they discussed whether, if an expected loss impairment approach were to be used, the "three-bucket" model or a simplified approach should be applied.

The scope of the discussion was limited to trade receivables with (and without) a significant financing component that result from revenue transactions within the scope of Proposed Accounting Standards Update, *Revenue Recognition (Topic 605): Revenue from Contracts with Customers* (the Revenue Exposure Draft).

Trade Receivables *without* a Significant Financing Component

The Boards asked the staff to further analyze whether an incurred loss impairment model or an expected loss impairment model should be applied to trade receivables without a significant financing component, in particular to assess the change in practice necessary to apply an expected loss impairment model.

Subject to that decision, the Boards discussed how an expected loss approach would be applied to trade receivables *without* a significant financing component. In particular, the Boards discussed whether the "three-bucket" model or a simplified approach should be applied. This discussion was not joint because of the different initial measurement requirements for financial instruments in accordance with IFRSs and those in accordance with U.S. GAAP—nevertheless, the Boards' decisions (as outlined below) were consistent.

The IASB tentatively decided that a simplified form of the "three-bucket" model would be applied. The approach for trade receivables accounted for as not having a significant financing component in accordance with the Revenue Exposure Draft would be twofold (affecting both initial measurement of the receivable and the general "three-bucket" model):

1. The receivable would be measured at the transaction price as defined in the Revenue Exposure Draft (that is, the invoice amount in many cases) on initial recognition in IFRS 9, *Financial Instruments*.
2. Those receivables would be included in Bucket 2 or Bucket 3 on initial recognition, thus recognizing lifetime expected losses on initial recognition and throughout the life of the asset.

Nine IASB members agreed.

If an expected loss impairment model were to be applied, the FASB tentatively decided that the credit impairment measurement objective for all trade receivables that do not have a significant financing component would be lifetime expected losses throughout their life.

Seven FASB members agreed.

Trade Receivables *with* a Significant Financing Component

The Boards tentatively decided that an expected loss impairment model would be applied to trade receivables *with* a significant financing component.

Fourteen IASB members and seven FASB members agreed.

The Boards tentatively decided that an entity could apply a policy election either to fully apply the "three-bucket" impairment model to trade receivables accounted for as having a significant financing component or to apply a simplified model in which those trade receivables would have an allowance measurement objective of lifetime expected credit losses at initial recognition and throughout the trade receivables' life. The simplified model provides relief because an entity would not be required to track credit deterioration through the buckets of the "three-bucket" model for disclosure purposes.

Nine IASB members and four FASB members agreed.