

MINUTES



To: FASB Board Members

From: Accounting for Financial Instruments Team

Subject: May 21, 2012 Joint Board Meeting—
Accounting for Financial Instruments: Classification and Measurement

Date: May 24, 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: Classification and Measurement

Basis for Discussion: FASB: Memorandums 151–153
IASB: Agenda Papers 6, 6A–6C

Length of Discussion: 8:59 a.m. to 11:05 a.m. EST

Attendance:

Board members present: FASB: Seidman, Buck, Golden, Linsmeier, Schroeder, Siegel, and Smith
IASB: Hoogervorst, Mackintosh, Cooper, Danjou, Engstrom, Finnegan, Gomes, Kalavacherla, McConnell, Ochi, Pacter, Scott, Smith, Wei-Guo

Board members absent: None

Staff in charge of topic: Feygina, Lark, Cancro, and Shah

Other staff at Board table: FASB: Stoklosa, Handy, and Laungani
IASB: Lloyd

Outside participants: None

Type of Document and Timing Based on the Technical Plan:

The Board met to discuss issues relating to the development of an Accounting Standards Update addressing the accounting for financial instruments. The Board has not yet determined the expected timing of the next due process document.

Summary of Decisions Reached:

Fair Value through Other Comprehensive Income (FVOCI) Category for Eligible Debt Instruments (IASB-only Discussion)

The IASB discussed whether a FVOCI category for eligible debt instruments should be added to IFRS 9, *Financial Instruments* (the meaning of *eligible debt* instruments is discussed further in the following section) and, if so, how the mechanics of this category should work. Refer to the IASB's [website](#) for discussion of this topic.

12 IASB members voted in favor of this decision.

FVOCI and Fair Value through Net Income (FVNI) Business Model Assessment for Financial Assets (IASB and FASB Discussion)

The FASB and the IASB discussed the business model assessment for FVOCI and FVNI, including which measurement category should be defined and which should be a residual category.

The Boards tentatively decided that the FVOCI category should be defined, and FVNI should be the residual category.

The Boards tentatively decided that financial assets should be measured at FVOCI if they are eligible debt instruments (that is, they pass the contractual cash flow characteristics assessment) and are managed within a business model whose objective is both to hold the financial assets to collect contractual cash flows and to sell the financial assets. The Boards tentatively decided to provide application guidance on the types of business activities that would qualify for the FVOCI business model.

10 IASB members supported the decision, and 6 FASB members supported the decision.

Reclassification of Financial Assets (IASB and FASB Discussion)

The Boards also discussed whether, and in what circumstances, financial assets should be reclassified.

The IASB tentatively decided to extend the existing reclassification requirements in IFRS 9 to the FVOCI category.

All IASB members voted in support of the decision.

The FASB tentatively decided to prospectively require financial assets to be reclassified when (and only when) the business model changes, which should be very infrequent. Changes in business model that require reclassifications must be (1) determined by an entity's senior management as a result of external or internal changes, (2) significant to an entity's operations, and (3) demonstrable to external parties. The FASB will discuss at a future meeting whether to account for reclassification of financial assets prospectively as of the first day of an entity's next reporting period or as of the last date of an entity's reporting period in which the business model changes.

All FASB members voted in support of the decision.

At a future meeting, the Boards will further consider how to account for reclassifications.