

Accounting for Financial Instruments Summary of Decisions Reached to Date As of March 31, 2010



The Summary of Decisions Reached to Date is 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 a final Accounting Standards Update.

Scope

The scope of the proposed Update on accounting for financial instruments will be based on the present definition of a **financial instrument** in the Master Glossary of the FASB Accounting Standards Codification™. The definition was amended to align with the recognition principle. The amended language is struck out in the definition below:

A financial instrument is defined as cash, evidence of an ownership interest in an entity, or a contract that both:

- a. Imposes on one entity a contractual obligation either:
 1. To deliver cash or another financial instrument to a second entity
 2. To exchange other financial instruments on potentially unfavorable terms with the second entity.

- b. Conveys to that second entity a contractual right either:
 1. To receive cash or another financial instrument from the first entity
 2. To exchange other financial instruments on potentially favorable terms with the first entity.

The use of the term financial instrument in this definition is recursive (because the term financial instrument is included in it), though it is not circular. The definition requires a chain of contractual obligations that ends with the delivery of cash or an ownership interest in an entity. Any number of obligations to deliver financial instruments can be links in a chain that qualifies a particular contract as a financial instrument.

Contractual rights and contractual obligations encompass both those that are conditioned on the occurrence of a specified event and those that are not. All contractual rights (contractual obligations) that are financial instruments meet the definition of asset (liability) set forth in FASB Concepts Statement No. 6, *Elements of Financial Statements*. ~~although some may not be recognized as assets (liabilities) in financial statements—that~~

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~~is, they may be off balance sheet—because they fail to meet some other criterion for recognition.~~

For some financial instruments, the right is held by or the obligation is due from (or the obligation is owed to or by) a group of entities rather than a single entity.

The following financial instruments are excluded from the scope of the proposed Update to be issued:

1. Employers' and plans' obligations for pension benefits; other postretirement benefits, including health care and life insurance benefits, postemployment benefits, employee stock option and stock purchase plans; and other forms of deferred compensation arrangements as defined in the following:
 - a. Topic 715 on compensation (originally issued as FASB Statement No. 43, *Accounting for Compensated Absences*, and APB Opinion No. 12, *Omnibus Opinion—1967*)
 - b. Topic 712 on nonretirement postemployment benefits (originally issued as FASB Statement No. 112, *Employers' Accounting for Postemployment Benefits*)
 - c. Topic 715 on compensation for retirement benefits (originally issued as FASB Statements No. 87, *Employers' Accounting for Pensions*, and No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*)
 - d. Topic 960 on plan accounting for defined benefit pension plans (originally issued as FASB Statement No. 35, *Accounting and Reporting by Defined Benefit Pension Plans*)
 - e. Topic 718 on shared-based payment (originally issued as FASB Statement No. 123 (revised 2004), *Share-Based Payment*).
2. Contracts within the scope of Topic 944 on insurance (originally issued as FASB Statements No. 60, *Accounting and Reporting by Insurance Enterprises*, No. 97, *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments*, No. 113, *Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts*, and No. 163, *Accounting for Financial Guarantee Insurance Contracts*), except for deposit-type and investment contracts issued by insurance entities as defined in that Topic.
3. Noncontrolling interests in consolidated subsidiaries
4. Equity investments in consolidated subsidiaries

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5. Equity instruments issued by the entity and classified in stockholders' equity, in their entirety, in the statement of financial position. (Financial instruments with equity-like features that are classified as liabilities under U.S. generally accepted accounting principles would be subject to the Board's proposal. The scope also would not apply to equity components of hybrid financial instruments that require bifurcation.)
6. An interest in a variable interest entity that the entity is required to consolidate.
7. Lease assets and liabilities that are accounted for under Topic 840 on leases (originally issued as FASB Statement No.13, *Accounting for Leases*).
8. Receivables and payables of not-for-profit entities that represent pledges arising from voluntary nonreciprocal transfers.
9. The following financial guarantee contracts:
 - a. A contract that provides for payments that constitute a vendor rebate
 - b. A guarantee or an indemnification whose existence prevents the guarantor from being able to either account for a transaction as the sale of an asset that is related to the guarantee's underlying or recognize in earnings the profit from that sale transaction
 - c. A guarantee or an indemnification of an entity's own future performance
 - d. A product warranty or other guarantee for which the underlying is related to the performance (regarding function, not price) of nonfinancial assets that are owned by the guaranteed party
 - e. A guarantee issued either between parents and their subsidiaries or between corporations under common control
 - f. A parent's guarantee of its subsidiary's debt to a third party (whether the parent is a corporation or an individual)
 - g. A subsidiary's guarantee of the debt owed to a third party by either its parent or another subsidiary of that parent.
10. The contingent obligation to make future payments or otherwise transfer consideration under a registration payment agreement (which would be recognized separately from the debt or equity instrument subject to the agreement). The debt instrument that is subject to a registration payment arrangement would be within the scope of the proposed Update to be issued.
11. A contingent consideration arrangement based on a nonfinancial variable, for example, arrangements based on a specified volume of sales.

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12. Holders (potential borrowers) of loan commitments and financial standby letters of credit.
 13. Issuers of lines of credit issued as part of credit card arrangements.
 14. The following instruments or transactions that are excluded from Topic 815 on derivative and hedging:
 - a. Forward contracts related to security trades that are “regular way”
 - b. Derivatives that are impediments to sale accounting
 - c. Investment contracts accounted for under Topic 960 on plan accounting for defined benefit pension plans
 - d. A policyholder’s investment in a life insurance contract
 - e. Contracts between an acquirer and seller to enter into a business combination at a future date
 - f. Contracts that are not exchange-traded if the underlying is any of the following:
 - i. A climatic or geological variable
 - ii. The price or value of a nonfinancial asset or liability of one of the parties to the contract provided that the asset is not readily convertible to cash
 - iii. Specified volumes of sales or service revenues of one of the parties to the contract.

Life settlement contracts would be included within the scope of the proposed Update to be issued.

Application to Specialized Industries

Brokers and dealers in securities

Financial assets of brokers and dealers in securities would be measured at fair value with changes in fair value recognized in net income. Financial liabilities of brokers and dealers in securities would be measured and reported in accordance with the guidance to be issued in the proposed Update. Therefore, financial liabilities of brokers and dealers in securities may qualify for certain changes in their fair value to be recognized in other comprehensive income.

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Investment companies

Financial assets and financial liabilities of investment companies would be measured at fair value with changes in fair value included in net increase (decrease) in net assets resulting from operations.

Master Glossary

Core Deposit Liabilities

The Master Glossary will be amended to include a definition of core deposit liabilities. The definition would state that core deposit liabilities are deposits without a stated maturity that management believes are a stable source of funds.

Amortized Cost

The definition of amortized cost in the Master Glossary will be amended to clarify that the amortized cost of a financial instrument would not be reduced by allowances for credit impairments but would be reduced for direct write-offs of principal amounts.

Write-off

The Master Glossary will be amended to include a definition of write-off. The definition would state that a write-off is a reduction in the carrying amount of a financial asset due to uncollectibility and that a financial asset is considered uncollectible if the entity has no reasonable expectations of recovery.

Short-term receivables and payables

The Master Glossary will be amended to state that short-term receivables and payables are receivables and payables that arise in the normal course of business that are due in customary terms not exceeding approximately one year, excluding credit card receivables.

Recognition

An entity shall recognize all of its financial instruments in its statement of financial position as either financial assets or financial liabilities depending on the entity's present rights or obligations in the contracts.

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Measurement of Financial Instruments and Reporting Changes in Their Value

Initial Measurement (except core deposit liabilities)

Financial instruments subsequently measured at fair value with changes in fair value recognized in net income would be initially measured at fair value. A difference between the transaction price and that fair value, if any, would be immediately recognized as a gain or loss in net income. Transaction costs and fees for these financial instruments would be recognized in net income at the date of initial recognition.

Financial instruments subsequently measured at fair value with changes in fair value recognized in other comprehensive income would be initially measured at transaction price. The difference between transaction price and fair value upon the first subsequent measurement would be recognized in other comprehensive income. (The proposed Update issued for this project will provide a principle for determining if the transaction price differs from fair value and how to calculate the initial value of the financial instrument in that situation, similar to Section 310-10-30 on initial measurement of receivables (originally issued as APB Opinion No. 21, *Interest on Receivables and Payables*). Transaction costs and fees received related to these financial instruments would be recognized in other comprehensive income and amortized to net income as a yield adjustment over of the life of the related financial instrument. Those fees and costs qualifying for this treatment would be subject to the definitions in Subtopic 310-20 on Nonrefundable Fees and Other Costs (originally issued as FASB Statement No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating Loans and Initial Direct Costs of Leases*). All other costs and fees would be recognized in net income at the date of initial recognition.

Financial instruments for which the amortized cost option is elected would be initially measured at the transaction price.

Subsequent Measurement (except core deposit liabilities)

All financial instruments would be subsequently measured at fair value with all changes in fair value recognized in net income unless the following criterion is met.

If an entity's business strategy is to hold debt instruments with principal amounts for collection or payment(s) of contractual cash flows rather than to sell or settle the financial instruments with a third party, certain changes in fair value for those instruments may be recognized in other comprehensive income.

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For hybrid financial instruments containing embedded derivatives that do not meet the clearly-and-closely related criterion and require separate accounting under Topic 815, all changes in fair value for the entire hybrid financial instrument would be recognized in net income. For hybrid financial instruments containing embedded derivatives that do not require separate accounting under Topic 815 and the entity's business strategy is to hold the instruments for collection or payment(s) of contractual cash flows rather than to sell or settle the financial instruments with a third party, certain changes in fair value for the entire hybrid financial instrument may be recognized in other comprehensive income.

The amount of the change in fair value that is permitted to be recognized in other comprehensive income equals the entire change in fair value, excluding current period interest accruals (including amortization/accretion of premium/discount upon acquisition), minus the current portion of the change in fair value attributable to credit losses. In addition, for changes in fair value that have been recognized in other comprehensive income, realized gains or losses from sales or settlements would be recognized in net income.

In complying with this guidance for recognizing fair value change in other comprehensive income, an entity's business strategy for a financial instrument would be evaluated based on how the entity manages its financial instruments rather than based on the entity's intent for an individual financial instrument. The entity also would demonstrate that it holds a high proportion of similar instruments for long periods of time relative to their contractual terms.

Election of whether changes in fair value of a qualifying financial instrument are to be recognized in net income or in other comprehensive income would be made at the initial recognition of the instrument and could not be subsequently changed.

Amortized Cost Option

An entity may irrevocably elect to measure a financial liability at amortized cost if the financial liability meets both of the following criteria:

1. The financial liability meets the criteria to recognize certain changes in fair value in other comprehensive income.
2. Measurement of the financial liability at fair value would create or exacerbate an accounting mismatch of recorded assets and liabilities.

Measurement of a financial liability at fair value would be deemed to create or exacerbate an accounting mismatch only in the following circumstances:

1. The financial liability is contractually linked to an asset measured at amortized cost.

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2. The financial liability is issued by and recorded in, or pushed down to, an operating segment of which less than 50 percent of the segment's recognized assets are measured at fair value
3. The financial liability of a consolidated entity that is not evaluated as being contractually linked to an asset or at the operating segment level, of which less than 50 percent of the consolidated entity's recognized assets are measured at fair value.

An entity would make this irrevocable election when the financial liability is issued or incurred. For purposes of applying the quantitative tests described above, recognized assets represent the recognized assets as of the end of the last reporting period (less assets that are contractually linked to a financial liability), plus any assets acquired by issuing a financial liability. Cash is not considered to be measured at fair value for purposes of applying the quantitative test.

Measurement of Core Deposit Liabilities

Core deposit liabilities would be initially and subsequently measured at the present value of the average core deposit liability amount discounted at the rate differential between the alternative funds rate and the all-in-cost-to-service rate over the implied maturity (the "remeasurement amount"). In calculating the present value of the average core deposit liability amount, entities should consider future deposits. This would result in an intangible asset being reflected in the valuation.

Certain changes in the value of core deposit liabilities may be recognized in other comprehensive income. The amount of the change in value that is permitted to be recognized in other comprehensive income equals the entire change in value excluding current period interest accruals. In addition, realized gains or losses from settlements would be recognized in net income.

Election of whether changes in core deposit liabilities are to be recognized in net income or in other comprehensive income would be made in accordance with the transition and effective date requirements in the final Update issued and could not be subsequently changed.

Unconsolidated equity investments

Entities would continue to apply the equity method of accounting in Topic 323 if the entity has significant influence over the investee and the investment is considered related to the entity's consolidated business. (The staff will define the criteria for determining whether an investee is related to the entity's consolidated business.) Entities would not be permitted to measure these investments at fair value with changes in fair value recognized in net income.

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Unconsolidated equity investments that do not meet the criteria for the equity method of accounting would be measured at fair value with changes in fair value recognized in net income.

Short-term receivables and payables and other certain other investments

Short-term receivables and payables for which the entity's business strategy is to hold the instrument for collection or payment(s) of contractual cash flows rather than to sell or settle the financial instruments with a third party, would be measured at carrying value. Short-term receivables would be subject to the credit impairment model described below.

Certain types of investments that can only be redeemed with the issuer at a maximum of the amount contributed may be measured at the redemption value. (Examples of these types of investments will be included in the proposed Update issued.)

Loan Commitments and Financial Standby Letters of Credit

An entity would classify a loan commitment or financial standby letter of credit issued (potential lenders) in the same way that the loan or letter of credit would be classified if the commitment or standby letter of credit had been exercised and funded. That means that:

1. Changes in the fair value of loan commitments and financial standby letters of credit would be recognized in net income if changes in fair value of the loan or letter of credit, if funded, would have been recognized in net income.
2. Changes in the fair value of loan commitments and financial standby letters of credit would be recognized in other comprehensive income if changes in fair value of the loan or letter of credit, if funded, would have been recognized in other comprehensive income. In this case, commitment fees would be recognized as a yield adjustment over the term of the funded loan.

Interest-only and Principal-only Strips

Changes in fair value of interest-only and principal-only strips would qualify for recognition in other comprehensive income if all of the following are met:

1. The entity's business strategy is to hold the instrument for collection of contractual cash flows
2. Bifurcation and separate accounting under Topic 815 would otherwise not be required
3. The instrument could not be contractually prepaid or otherwise settled in such a way that the holder would not recover substantially all of its recorded investment.

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Credit Impairment

Recognition

For financial assets whose changes in fair value are recognized in other comprehensive income, an entity would be required to determine if credit losses exist for those financial assets at the end of each reporting period.

An entity should recognize credit impairments at each reporting period when it does not expect to collect all amounts due according to the contractual terms of the financial asset. An entity should not consider a probability threshold regarding the occurrence of the event(s) or the effect of specific conditions in determining whether a credit loss exists. That is, an entity should consider all past and current events in assessing and calculating the amount of credit impairments without an assessment of whether it is probable that a loss has been incurred. Although future expectations should not be considered in assessing a financial asset for impairment, the implications of past events and existing conditions on the current and future collectability of the financial asset should be considered.

In assessing credit impairments, an entity would consider factors such as the remaining payment terms, the financial condition of the issuer, defaults, collateral values, as well as existing environmental factors such as industry, geographic, economic, and political data, existing business climate in a particular industry, level of delinquencies, bankruptcies, charge-offs, and recoveries, national, regional, or local economic conditions and effects of credit concentrations if such concentrations indicate that credit impairment has occurred.

Measurement

An entity has the latitude to develop measurement methods that are practical in their circumstances and are not prevented from evaluating credit losses on a pool or portfolio basis. Appropriate historical loss rates adjusted for current macro-economic factors or other methods that are practical for the entity would not be prohibited. When enough information is available relating to the amount and timing of cash flows expected not to be collected, the entity would use a net present value technique to determine the amount of credit impairment. If an entity bases its measurement of credit impairment on a present value amount, the entity should calculate that present value amount based on an estimate of cash flows not expected to be collected or changes in the net present value amount of cash flows expected to be collected.

For such financial assets assessed for impairment on an individual basis, even if the asset is not impaired based on an entity's assessment of the asset on an individual basis, recognition of a credit impairment may be appropriate based on loss experience for financial assets with similar

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characteristics. Therefore, the entity can recognize a credit impairment for such financial assets and measure the credit impairment based on a historical loss rate for financial assets having similar risk characteristics. If a financial asset is impaired based on an entity's assessment of the asset on an individual basis, the entity should recognize a credit impairment for that asset equal to the amount by which the amortized cost exceeds the present value of the cash flows the entity expects to collect. In that situation, the entity should not recognize any additional credit impairment for the financial asset in addition to the amount determined based on the net present value of cash flows not expected to be collected.

For pools of homogeneous financial assets for which impairment is assessed and measured based on a historical loss rate, the amount of credit impairment to be recognized in net income at the end of the reporting period during which the assets were originated or acquired should be determined by applying an aggregate loss rate to the pool balance. In subsequent periods, changes in the loss rate would generally result in the recognition of an additional credit impairment or the reversal of a credit impairment recognized in a previous period.

An entity should place a financial asset on nonaccrual status when the entity's expectations about cash flows not expected to be collected would indicate that the overall yield on the financial asset will be negative (for example, if the gross cash flows expected to be collected are less than the original principal amount). An entity should write-off a financial asset when the entity has no reasonable expectations of recovery.

Interest Income Recognition

For financial assets whose changes in fair value are recognized in other comprehensive income, an entity would determine the amount of interest income to recognize by multiplying the amortized cost less cumulative credit impairments by the effective interest rate.

The difference between the amount of the accrued interest receivable based on the contractual interest due and the amount of interest income accrued based on the application of the financial asset's effective interest rate to the amortized cost balance net of the allowance should be recognized as an increase to the allowance for credit losses. To the extent that the allowance account exceeds an entity's estimate of expected losses, the difference would be recognized in income as a recovery.

For originated financial assets, the effective interest rate would be the rate of return implicit in the instrument, that is, the contractual interest rate adjusted for any net deferred loan fees or costs, premiums, or discounts existing at the origination of the loan. Those fees and costs

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qualifying for this treatment would be subject to the definitions in Subtopic 310-20 on Nonrefundable Fees and Other Costs (originally issued as FAS 91).

For purchased financial assets, the effective interest rate would be the rate that equates the purchase price of the financial asset to its principal amount reduced by the credit loss expected by the purchaser at acquisition.

Deferred Tax Assets

An entity would evaluate the need for a valuation allowance on a deferred tax asset related to a debt instrument measured at fair value with changes in fair value recognized in other comprehensive income in combination with other deferred tax assets of the entity.

Hedge Accounting

The hedge accounting model to be included in the proposed Update will incorporate all changes to current hedge accounting proposed in the June 2008 FASB Exposure Draft, *Accounting for Hedging Activities*, except that the proposed Update would retain hedging of risk components (bifurcation-by-risk), which the Exposure Draft proposed to eliminate.

Key features (but not all features) of the hedge accounting model to be included in the proposed Update are as follows:

- (a) The types of items and transactions that are eligible for hedge accounting in Topic 815 would continue to apply.
- (b) Entities would be required to perform a qualitative (rather than quantitative) test at inception to demonstrate that an economic relationship exists between the hedging instrument and the hedged item or forecasted transaction. However, in certain situations a quantitative test may be necessary at inception.
- (c) After inception of the hedging relationship, an entity would need to qualitatively (or quantitatively, if necessary) reassess effectiveness only if circumstances suggest that the hedging relationship may no longer be reasonably effective.
- (d) As part of the hedge effectiveness assessment, entities would be required to demonstrate that changes in fair value of the hedging instrument would be reasonably effective in offsetting the changes in the hedged item's fair value or the variability in the hedged cash flows for the risk or risks hedged by the entity in that hedging relationship.

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- (e) The shortcut method and critical terms match method would be eliminated. An entity would no longer have the ability to assume a hedging relationship is reasonably effective and recognize no ineffectiveness in net income during the term of the hedge.
- (f) Entities would be able to designate particular risks as the risks being hedged in a hedging relationship. Only the effects of the risks hedged would be reflected in net income. The types of risks eligible as hedged risks in Topic 815 would continue to apply.
- (g) Entities would not be permitted to discontinue hedge accounting by simply removing the designation of a hedging relationship. Hedge accounting can be discontinued only if the criteria for hedge accounting are no longer met or the hedging instrument expires, is sold, terminated, or exercised.

Presentation

Entities would be required to include one statement of financial performance with a total for comprehensive income including a subtotal for net income as part of the basic financial statements at each reporting period. Entities would continue to report only basic and diluted earnings per share based on net income.

Financial instruments would be displayed separately on the face of the statement of financial position depending on whether changes in their value are recognized in net income or in other comprehensive income.

Financial Instruments Whose Changes in Fair Value Are Recognized in Net Income (excludes core deposit liabilities)

An entity would be required to present on the face of the statement of financial position only the fair value amount of financial instruments whose changes in fair value are recognized in net income, except for the entity's own debt. The entity would be required to present the amortized cost of its own debt in the statement of financial position. An entity that so chooses may also present, either in the statement of financial position or in the notes to the financial statements, both the amortized cost and the amount needed to adjust the amortized cost to arrive at fair value for financial instruments whose changes in fair value are recognized in net income.

An entity would be required, at a minimum, to present separately on the face of the performance statement an aggregate amount for realized and unrealized gains or losses of financial instruments whose changes in fair value are recognized in net income. An entity that so chooses may also present current period interest income/expense accruals (including

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amortization/accretion of premium/discount upon acquisition), dividend income/expense accruals, or credit losses as separate line items in the performance statement but separate presentation of those items would not be required for financial instruments whose changes in fair value are recognized in net income.

For financial liabilities, an entity would also be required to present on the face of the performance statement a significant current period change in fair value attributable to changes in the entity's credit standing (excluding the change in price of credit). (The Board will provide guidance on how to measure changes in an entity's credit standing in the proposed Update issued.) The current period change in fair value attributable to changes in the entity's credit standing would be required to be displayed separately on the face of the performance statement depending on whether changes in the fair value of the financial liabilities are recognized in net income or in other comprehensive income.

Financial Instruments Whose Changes in Fair Value Are Recognized in Other Comprehensive Income (excludes core deposit liabilities)

For financial instruments whose changes in fair value are recognized in other comprehensive income, an entity would be required to present as separate line items in the statement of financial position the amortized cost and the amount needed to adjust amortized cost to arrive at fair value.

For financial assets, an entity also would be required to present a separate line item for cumulative credit losses on the face of the statement of financial position. Therefore, for financial assets, an entity would be required to separately present the amortized cost, cumulative credit losses, remaining fair value adjustment, and fair value on the face of the statement of financial position. For purchased financial assets, an entity would also be required to present as a separate line item its expectations of credit losses inherent in the instrument at acquisition.

An entity would be required, at a minimum, to present separately on the face of the performance statement current period interest income and expense accruals (including amortization (accretion) of premium (discount) upon acquisition), credit losses, and realized gains or losses of financial instruments whose changes in fair value are recognized in other comprehensive income.

For financial liabilities, an entity would also be required to present on the face of the performance statement a significant current period change in fair value attributable to changes in the entity's credit standing (excluding the change in price of credit). (The Board will provide guidance on how to measure changes in an entity's credit standing in the proposed Update

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issued.) The current period change in fair value attributable to changes in the entity's credit standing would be required to be displayed separately on the face of the performance statement depending on whether changes in the fair value of the financial liabilities are recognized in net income or in other comprehensive income.

An entity would not be required to present foreign currency transaction gains or losses on a financial instrument denominated in a foreign currency as a separate line item in the performance statement. Those changes in fair value would continue to be presented in other comprehensive income together with other changes in fair value of financial instruments whose changes in fair value are recognized in other comprehensive income.

Core Deposit Liabilities

For core deposit liabilities an entity elects to recognize changes in value in net income, the entity would be required to present on the face of the statement of financial position the amortized cost and the remeasurement amount of the core deposit liabilities. An entity may choose to present the amortized cost parenthetically or present as separate line items in the statement of financial position the amortized cost and the amount needed to adjust amortized cost to arrive at the remeasurement amount.

An entity would be required, at a minimum, to present separately on the face of the performance statement an aggregate amount for realized and unrealized gains or losses of core deposit liabilities an entity elects to recognize changes in value in net income. An entity that so chooses may also present current period interest expense accruals as a separate line item in the performance statement but separate presentation of interest expense accruals would not be required for core deposit liabilities whose changes in value are recognized in net income.

For core deposit liabilities an entity elects to recognize changes in value in other comprehensive income, the entity would be required to present as separate line items in the statement of financial position the amortized cost and the amount needed to adjust amortized cost to arrive at the remeasurement amount. An entity would also be required, at a minimum, to present separately on the face of the performance statement current period interest expense accruals and realized gains or losses of core deposit liabilities whose changes in value are recognized in other comprehensive income.

Financial Instruments for Which the Amortized Cost Option Is Elected

For an entity's own debt for which the amortized cost option is elected, the entity would be required to present separately in the performance statement both the current period interest

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expense accruals (including amortization (accretion) of premium (discount) upon acquisition) and realized gains or losses.

Disclosures

An entity would be required to provide disclosures that are disaggregated on the basis of the nature, characteristics, and risks of the financial instruments. An entity would be required to provide the following disclosures in the notes to the financial statements for each annual and interim reporting period:

For financial liabilities whose fair value changes are recognized in net income:

1. Qualitative information about the reasons for changes in fair value attributable to changes in the entity's creditworthiness (excluding the change in the price of credit)
2. How the gains and losses attributable to changes in instrument-specific credit risk related to the entity's change in creditworthiness were determined.

For financial instruments whose fair value changes are recognized in other comprehensive income:

1. Information about the contractual maturities of the financial instruments
2. For all purchased financial assets:
 - a. Principal amount of the instrument
(Less) Purchaser's assessment of the discount related to credit
(Plus or minus) Purchase premium or discount
Amortized cost
 - b. How the entity determined its assessment of the discount related to credit
3. For financial liabilities:
 - a. Qualitative information about the reasons for changes in fair value attributable to changes in the entity's creditworthiness (excluding the change in the price of credit)
 - b. How the gains and losses attributable to changes in instrument-specific credit risk related to the entity's change in creditworthiness were determined
4. For financial instruments that an entity sells or settles before their contractual maturity:
 - a. The fair value of the financial instruments
 - b. The gross realized gains and gross realized losses recognized in net income

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- c. The basis on which the cost of an instrument sold was determined (that is, specific identification, average cost, or other method used)
 - d. An explanation of the reasons for selling or settling the financial instruments
 5. For financial instruments on which an entity recognizes interest income:
 - a. The method used for calculating interest income on a pool of financial assets that are collectively assessed for impairment
 - b. If interest income is calculated on a pool basis using a weighted-average interest rate, the amortized cost basis, allowance for credit losses, and weighted-average interest rate of each pool
 6. For financial assets that have a negative yield and are not accruing interest, an entity would disclose the carrying amount and amortized cost.
 7. For financial assets with an allowance account:
 - a. The total allowance for credit losses by portfolio segment and in the aggregate, including the balance in the allowance at the beginning and end of each period, additions charged due to operations, additions from recognizing less interest than the gross interest contractually due, direct write-downs charged against the allowance, changes in methods and estimates, if any, and recoveries of amounts previously charged off.
 - b. The factors considered in determining whether the financial asset is impaired.
 - c. The inputs and assumptions used to measure credit impairments recognized in the performance statement. Examples of significant inputs include, but are not limited to, performance indicators of the underlying assets in the instrument (including default rates, delinquency rates, and percentage of nonperforming assets), collateral values, loan-to-collateral-value ratios, third-party guarantees, current levels of subordination, vintage, geographic concentration, and credit ratings.
 - d. The cumulative amount of credit impairments by class and the related carrying amount and unpaid principal balance for financial assets.
 - e. The average carrying amount and the related amount of interest income recognized during each reporting period for impaired financial assets.
 - f. The amortized cost and fair value of financial assets, by class, that are written off.

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For financial liabilities for which the amortized cost option is elected:

1. An explanation of the reasons why measuring the financial liability at fair value would create or exacerbate an accounting attribute mismatch.
2. The fair value of the financial liability.

For core deposit liabilities, disaggregated by class:

1. The calculation of average core deposit balances
2. The determination of the implied maturity period
3. The sources of the alternative funds rate used and why
4. The all-in-cost-to-service rate
5. A measurement uncertainty analysis.

Entities would be required to comply with the measurement uncertainty disclosures decided by the Board in the joint fair value measurement project for all financial instruments measured at fair value and classified as Level 3 in the fair value hierarchy except unquoted equity instruments. A complete measurement uncertainty analysis would be required in annual reporting periods. For each significant input, an entity would disclose the weighted-average input used to measure fair value in each interim and annual reporting period. For interim reporting periods, if the volatility of those inputs has significantly changed from the previous reporting period, the entity would provide the measurement uncertainty amounts. If the volatility of those inputs did not significantly change from the previous fiscal year end, the entity would disclose such and would not be required to provide measurement uncertainty amounts.

Entities would be required to disaggregate Topic 820 recurring fair value disclosures by whether the changes in fair value for the financial instruments are recognized in net income or in other comprehensive income.

For equity investments accounted for under the equity method of accounting, an entity would be required to disclose management's assessment about how the investment is considered related to the entity's consolidated businesses for each interim and annual reporting period. Factors to consider when determining if the investee's operations are considered related to the entity's consolidated businesses include the line of business in which the entity and investee operate, the level of intra-entity transactions between the entity and the investee (for example, the investee provides procurement, production, or distribution functions), and the level of common management between the entity and investee.

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Effective Date and Transition

Effective date

Certain aspects of the measurement guidance described above would be effective for nonpublic entities with less than \$1 billion in consolidated total assets four years after the original effective date. Conduit bond obligors for conduit debt securities that are traded in a public market would not qualify for the delayed effective date and would be considered public entities. Entities that qualify for the delayed effective date may measure both of the following financial instruments at amortized cost for the four-year period between the original effective date and the delayed effective date:

- (a) Loans that qualify for certain changes in fair value to be recognized in other comprehensive income under the classification and measurement guidance described above
- (b) Core deposit liabilities that qualify for certain changes in fair value to be recognized in other comprehensive income under the classification and measurement guidance described above.

Entities that qualify for the delayed effective date would be required to disclose the fair values of these loans in the notes to the financial statements, in accordance with the exit price notion in Topic 820. However, entities that qualify for the delayed effective date would not be required to disclose the remeasurement amounts for these core deposit liabilities in the notes to the financial statements.

Entities that qualify for the delayed effective date would continue to account for loan commitments under current GAAP during for the four-year period between the original effective date and the delayed effective date.

Entities that qualify for the delayed effective date would be required to apply all other guidance included in the proposed Update issued. In addition, entities that qualify for the delayed effective date would be required to apply all measurement guidance included in the proposed Update issued four years after the original effective date.

Transition

Entities would be required to record a cumulative-effect adjustment to the statement of financial position before the effective date of the Update. The cumulative-effect adjustment would be

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calculated in accordance with Topic 250 on accounting changes and error corrections. Entities would also be required to restate their prior-period statement of financial position in the first financial statements issued after the effective date of the Update. Early adoption would not be permitted.