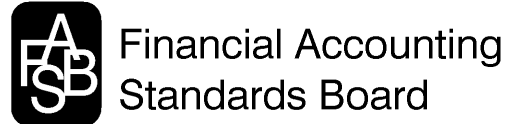


MINUTES



To: Board Members

From: Fanning (ext. 296)

Subject: Minutes of the March 18, 2009 Board Meeting—Loan Loss Disclosures **Date:** April 28, 2009

cc: FASB: Golden, Bielstein, Lott, Proestakes, Stoklosa, Leverenz, Maroney, C. Smith, Hood, Brickman, Mechanick, Glotzer, Fanning, Posta, Chookaszian, Gabriele, Romas, Klimek, Mayer, FASB Intranet; IASB: Leisenring

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 a final Statement, Interpretation, or FASB Staff Position.

Topics: Proposed disclosures related to the allowance for credit losses associated with loans and finance leases (financing receivables)

Basis for Discussion: Board Memorandums No. 2 and No. 2A

Length of Discussion: 10:00–10:30 a.m.

Attendance:

Board members present: Herz, Linsmeier, Seidman, Siegel, and Smith

Board members absent: None

Other Participants: None

Staff in charge of topic: Leverenz, Maroney, and Fanning

Other staff at Board table: Golden and Stoklosa

Summary of Decisions Reached:

The Board discussed proposed enhancements to disclosures about the allowance for credit losses associated with loans and finance leases (financing receivables). The Board agreed with the staff's recommendations that are described in the Board meeting handout.

The Board will discuss proposed transition provisions and the effective date of the proposed changes at a future meeting.

[Note: The Board meeting handout is included as Appendix A of these minutes. Appendix B includes a more detailed description of the decisions reached that was posted to the Loan Loss Disclosures page of the FASB's website.]

Objectives of Meeting:

The objective of the meeting was to discuss proposed disclosures related to the allowance for credit losses associated with loans and finance leases (financing receivables). That objective was met.

Matters Discussed and Decisions Reached:

PROPOSED OBJECTIVE

Staff Recommendation

1. Mr. Leverenz stated the staff's recommendation for the objective of this project is for a creditor to provide disclosure information to financial statement users that allows them to understand the credit characteristics of a creditor's loan portfolio and how management evaluates those characteristics in determining its allowance for credit losses. To achieve this objective, a creditor shall disclose its accounting policies, qualitative and quantitative information about the credit risk inherent in its loan portfolio, and methods in determining the components of the allowance for credit losses.

Board Vote

2. The Board voted in favor of the proposed project objective. All Board members agreed.

Board Comments

3. Mr. Linsmeier stated that the second sentence of the objective is not actually an objective. Instead it is a method to achieve the objective.

PROPOSED DISCLOSURES

Allowance for Credit Losses

Staff Recommendation

4. Mr. Leverenz stated that the staff's recommendation for the scope of the allowance disclosure is as currently defined under FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan*, which includes allowance for credit losses determined in accordance with that Statement and FASB Statement No. 5, *Accounting for Contingencies*.
5. Mr. Leverenz explained that to define the level of disaggregation within the allowance for credit loss disclosure, the staff has developed the term *loan portfolio segment*. This term is defined in the glossary of the March 18, 2009 Board handout (Appendix A) as the level at which a creditor develops and documents a systematic methodology to determine its allowance for credit losses. The staff's intention is for this definition to coincide with current guidance in SEC Staff Accounting Bulletin No. 102, *Selected Loan Loss Allowance Methodology and Documentation Issues*, and regulatory guidance for calculating the allowance for credit loss.
6. Mr. Leverenz reviewed the staff's proposed qualitative and quantitative disclosure requirements for the allowance for credit losses (paragraphs 7 and 11 of the Board handout).

Board Vote

7. The Board voted in favor of the proposed scope and disclosure requirements related to the allowance for credit losses. All Board members agreed.

Board Comments

8. Mr. Siegel stressed the importance of the proposed requirement that an entity provide, if applicable, a description of changes in accounting policies related to the allowance for credit losses from the prior reporting period. Ms. Seidman suggested that a

specific example be included to counter those that may say this disclosure relates more to a method than a policy.

Loan Rollforward Schedule

Staff Recommendation

9. Mr. Leverenz stated that the staff recommends a creditor be required to disclose the activity in the gross loan carrying amount on a loan portfolio segment and aggregate basis for each period presented separately for loans collectively evaluated for impairment and loans that are individually evaluated for impairment.

Board Vote

10. The Board voted in favor of the proposed disclosure requirements related to the loan rollforward schedule. All Board members agreed.

Board Comments

11. Ms. Seidman supported the disclosure of a loan rollforward schedule but added that the example in the Exposure Draft should not be overly detailed. Ms. Seidman stated that she is not in favor of disclosures that would require an entity to “reprogram” its General Ledger. Mr. Leverenz responded that the staff will consider including a caveat with the examples in the Exposure Draft to emphasize that the examples are not prescriptive.
12. Mr. Golden mentioned that the staff will address this issue in drafting based on the notion that material activity (both increases and decreases) would be identified separately and all other items combined and included in an “all other” category.

Credit Quality Information

Staff Recommendation

13. Mr. Leverenz first reviewed the definition of *class* as defined in paragraph 4(a) of the Board handout. He stated that the “by class” notion is the principle the staff used as the level of disaggregation for the remaining proposed credit risk disclosures in this project.

14. Mr. Leverenz then reviewed the proposed scope and disclosure requirements for credit quality in paragraphs 15–20 in the Board handout. Mr. Leverenz mentioned that the staff recommends that past due financing receivables and impaired loans not be included in the credit quality disclosures since the staff believes the credit quality disclosure should provide the user the information necessary to determine the credit risk of assets not past due or impaired and whether such assets are more or less likely to become past due or impaired in the future. If past due and impaired assets are included in the credit quality disclosures, it could make this information less transparent to the user as current, past due, and impaired loans would be aggregated.

Board Vote

15. The Board voted in favor of the proposed scope and disclosure requirements related to the credit quality disclosures. All Board members agreed.

Board Comments

16. Mr. Linsmeier asked the staff if loans that are under AICPA Statement of Position 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*, would be considered a separate class under the proposed class definition, which specifies that classes at a minimum must segregate financial assets based on measurement attribute. Mr. Leverenz responded that loans under SOP 03-3 would be considered a separate class since those loans are initially measured at the present value of amounts to be received.
17. Mr. Siegel asked whether a requirement should be added to disclose past due or impaired loans that were originally rated AAA.
18. Mr. Smith mentioned that the proposed disclosures that have been agreed to so far are already required for regulatory purposes or are being done internally so preparers are not being asked for much additional information. Ms. Seidman agreed that this is true for a financial institution.

Past Due Financing Receivables

Staff Recommendation

19. Mr. Leverenz reviewed the staff's proposed scope and quantitative and qualitative disclosure requirements for past due financing receivables (paragraphs 22–24 of the Board handout).
20. Mr. Leverenz also discussed the staff's recommendation that an entity be required to reconcile current and past due financing receivables (gross loan carrying amount and associated allowance) to the collectively evaluated impaired loan allowance portion of the allowance for credit losses on a loan portfolio segment and aggregate basis. Based on the staff's recommendation, current financing receivables would represent the credit quality disclosure because it excludes past due financing receivables and impaired loans. The staff believes this reconciliation will provide the user with better information to support and perform analysis on the collectively impaired loan allowance.

Board Vote

21. The Board voted in favor of the proposed scope and disclosure requirements related to the past due financing receivable disclosures and to require an entity to reconcile current and past due financing receivables to the collectively evaluated impaired loan allowance portion of the allowance for credit losses on a loan portfolio segment and aggregate basis. All Board members agreed.

Board Comments

22. The Board did not have any significant comments related to past due financing receivable disclosures and the reconciliation of current and past due financing receivables to the collectively evaluated impaired loan allowance.

Impaired Loans

Staff Recommendation

23. Mr. Leverenz stated that the staff recommends the scope of the impaired loans (including trouble debt restructuring) disclosures be consistent as currently defined under paragraph 20 of Statement 114.

24. Mr. Leverenz also stated that the staff recommends the following disclosure requirements:

a. Qualitative disclosures:

- (1) The current required policy disclosures for impaired loans (including trouble debt restructuring) be revised to require policy disclosure on a per class of financial asset basis and disclosure of the factors the entity considered in determining that the loan is impaired.

b. Quantitative disclosures:

- (1) The current impaired loan (including trouble debt restructuring) disclosures related to the total recorded investment, amount of that recorded investment for which there is a related allowance, the amount of that allowance, average recorded investment, and interest income recognized in individually impaired loans be modified to include the disaggregation of the impaired disclosures on a per class of financial asset basis as well as in the aggregate.
- (2) The impaired loan unpaid principal balance be disclosed on a per class of financial asset basis as well as in the aggregate because this would indicate to the financial statement user those loans with partial charge-offs or those acquired at a significant discount.

Board Vote

25. The Board voted in favor of the proposed scope and disclosure requirements related to impaired loans (including trouble debt restructuring). All Board members agreed.

Board Comments

26. Ms. Seidman was not certain that entities would readily have access to the impaired loan unpaid principal balance. Ms. Maroney noted that this disclosure was added after comments from regulators that stated this information is already provided by entities in their filed call reports.

27. Mr. Linsmeier expressed concern over the staff's proposed term *gross loan carrying amount*. Mr. Leverenz responded that the staff is considering replacing that phrase with the term *recorded investment*, which already appears in Statement 114. Mr. Linsmeier noted that in some respects *gross loan carrying amount* would be better than *recorded investment*; however, he believes additional work should be performed to determine what term would best describe and communicate to the public the definition of *gross loan carrying amount*. Additionally, Mr. Linsmeier recommended that the staff use the phrase *unpaid principal* instead of *outstanding balance*.

Nonaccrual Financing Receivables

Staff Recommendation

28. Mr. Leverenz reviewed the staff's proposed scope and quantitative and qualitative disclosure requirements for nonaccrual financing receivables (paragraphs 35 and 36 of the Board handout).

Board Vote

29. The Board voted in favor of the proposed scope and disclosure requirements related to nonaccrual financing receivables. All Board members agreed.

Board Comments

30. The Board did not have any significant comments related to nonaccrual financing receivable disclosures.

Follow-up items:

- The staff will develop recommendations related to the transition and effective date of the proposed disclosures and discuss them with the Board at a public Board meeting in the near future.

General Announcements:

None.

APPENDIX A—March 18, 2009 Board Handout

LOAN LOSS DISCLOSURES

March 18, 2009

PURPOSE

1. At the March 18, 2009 Board meeting, the Board will discuss proposed disclosures related to the allowance for credit losses associated with loans and finance leases (financing receivables).

HANDOUT FORMAT

2. The proposed loan loss disclosure discussion and recommendations to the Board are organized as follows:
 - a. Project Objective
 - b. Allowance for Credit Losses
 - c. Loan Rollforward Schedule
 - d. Credit Risk Disclosures Related to the Collectively Impaired Loan Allowance
 - (1) Credit quality disclosure
 - (2) Past due financing receivables disclosure
 - e. Credit Risk Disclosures Related to the Individually Impaired Loan Allowance
 - (1) Impaired loan disclosure
 - f. Other Credit Risk Disclosures
 - (1) Nonaccrual disclosure.

PROPOSALS FOR THE BOARD'S CONSIDERATION

Project Objective

3. The objective of this project is for a creditor to provide disclosure information to financial statement users that allows them to understand the credit characteristics of a creditor's loan portfolio and how management evaluates those characteristics in determining its allowance for credit losses. To achieve this objective, a creditor shall disclose its accounting policies, qualitative and quantitative information about the credit risk inherent in its loan portfolio, and methods in determining the components of the allowance for credit losses.

Q1. Does the Board agree with the project's objective?

Glossary of Terms

4. This glossary defines terms used in this memorandum:
 - a. **Class**—To provide a context for the understanding of the disclosures, a creditor shall disclose information that enables users of its financial statements to evaluate the nature and extent of credit risk exposures arising from loans the creditor holds at the date of the financial statements, based on the principle determination of *class* as described below:
 - (1) Classes at a minimum must segregate financial assets based on measurement attribute (amortized cost, fair value, and lower of cost or fair value (LOCOM)).
 - (2) Classes then must be disaggregated to the level that management utilizes when internally assessing and monitoring risk and performance of the loan portfolio. In determining the appropriate level of internal reporting to use as a basis for disclosure, the reporting entity shall consider the level of detail needed by a user to identify the risks in the portfolio. For example, consideration should be given to, but not limited to, the following:
 - a. Meaningful categorization of borrowers (for example, commercial loans, consumer loans, and related parties)
 - b. Type of loan (for example, mortgage loans, credit card loans, and finance leases)
 - c. Significant industry sector (for example, real estate and mining)

- d. Type of collateral (for example, residential property, commercial property, government guaranteed, and unsecured)
- e. Geographic distribution of the loans, including domestic and international loans
- f. The requirements of FASB Staff Position SOP 94-6-1, *Terms of Loan Products That May Give Rise to a Concentration of Credit Risk*.

An entity shall determine, in light of the facts and circumstances, how much detail it must provide to satisfy the requirements of this Statement, how much emphasis it places on different aspects of the requirements, and how it disaggregates information for assets with different risk characteristics. The entity must strike a balance between obscuring important information as a result of too much aggregation and overburdening financial statements with excessive detail that may not assist financial statement users to understand the entity's financial position. For example, an entity shall not obscure important information by including it with a large amount of insignificant detail. Similarly, an entity shall not disclose information that is so aggregated that it obscures important differences between the different types of involvement or associated risks.

- b. **Gross Loan Carrying Amount**—The outstanding principal adjusted for any charge-offs, deferred fees or costs on originated loans, and any unamortized premiums or discounts on purchased loans.
- c. **Loan Portfolio Segment**—Shall coincide with SEC Staff Accounting Bulletin No. 102, *Selected Loan Loss Allowance Methodology and Documentation Issues*, and the *Interagency Policy Statement on Allowance for Loan and Lease Losses*.¹ The level at which a creditor develops and documents a systematic methodology to determine its allowance for losses. Each loan portfolio segment should contain loans with similar characteristics, such as risk classification, past due status, and loan type. Based on the segmentation of the loan portfolio, a creditor should estimate the collectively impaired loan allowance.

¹ The Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision, jointly with the National Credit Union Administration, revised the banking agencies' 1993 policy statement of the allowance for losses with the purpose of ensuring consistency with GAAP and more recent supervisory guidance.

Allowance for Credit Losses

Scope

5. Before discussing potential allowance disclosure requirements, the staff is presenting the Board with a recommendation on what assets should be included in the scope of such disclosures.
6. The staff's recommendation for the scope of the allowance disclosure is as currently defined under FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan*:
 - a. Allowance for credit losses determined in accordance with FASB Statement No. 5, *Accounting for Contingencies*
 - b. Allowance for credit losses determined in accordance with Statement 114.

Proposed Disclosure Requirements

7. The staff recommends the current description of the accounting policies and methodology used to estimate the allowance for loan losses be revised to require such descriptions on a loan portfolio segment basis for loans collectively evaluated for impairment (Statement 5) as well as those loans that are individually evaluated for impairment (Statement 114). Additionally, the staff recommends that an entity be required to provide, if applicable, a description of changes in accounting policies related to the allowance for credit losses from the prior reporting period. For quantitative disclosures, the staff recommends that the current disclosure requirements be modified to require separate reconciliations of changes in account, for the individually evaluated impaired loan allowance (Statement 114) and the collectively evaluated impaired loan allowance (Statement 5), on a loan portfolio segment basis as well as in the aggregate. The corresponding gross loan carrying amount would also be required on a loan portfolio segment and aggregate basis.

8. The staff notes that this policy information is required to be documented and maintained under existing SEC guidance. Requiring that entities detail any changes in this methodology would assist financial statement users in their analyses by highlighting those policy areas that have changed without forcing users to compare language from one reporting period to the next. Many entities disclose some breakdown of the allowance either in investor presentations or press releases. Therefore, the staff believes that such additional disclosure requirements would not require preparers to spend substantial incremental time preparing the disclosures. In addition, this proposed disclosure would more closely align the current disclosure requirements under U.S. GAAP with those required by IFRS.
9. Paragraph 16 of IFRS 7, *Financial Instruments: Disclosures*, states that “when financial assets are impaired by credit losses and the entity records the impairment in a separate account (for example, an allowance account used to record individual impairments or a similar account used to record a collective impairment of assets) rather than directly reducing the carrying amount of the asset, it shall disclose a reconciliation of changes in that account during the period for each class of financial assets.”
10. Financial statement users noted that it would be beneficial for the gross loan carrying amount to be disclosed with the corresponding loan loss allowance on a loan portfolio segment basis. This would provide the financial statement user with the ability to calculate each loan portfolio segment loss allowance as a percentage of the corresponding loan portfolio segment gross loan carrying amount on a historical basis. Users note that when the allowance for credit losses is shown as a single amount, it does not provide the transparency to determine the drivers for the change and the individual allowances associated with the various classes of financial assets.
11. Additionally, the staff recommends that the current policy disclosure for charging off uncollectible loans be modified to include the requirement to disaggregate the policy disclosure on a loan portfolio segment basis.

Q2. Does the Board agree with the staff's recommendation related to the allowance for credit losses as it pertains to the:

a. Scope?

b. Level of disclosure defined as loan portfolio segment?

c. Disclosure requirements?

Loan Rollforward Schedule

12. At the March 4, 2009 Education Session, there was discussion about the effect the composition of the loan portfolio would have on the analysis of the allowance for credit loss ratio (allowance for credit losses / gross loan carrying amount). For example, loans acquired in a business combination or a transfer would have an effect on the allowance depending on the basis for their accounting.

Proposed Disclosure Requirements

13. The staff recommends a creditor be required to disclose the activity in the gross loan carrying amount on a loan portfolio segment and aggregate basis for each period presented separately for loans collectively evaluated for impairment (Statement 5) and loans that are individually evaluated for impairment (Statement 114). The staff believes this would provide the financial statement user with beneficial information to further analyze the allowance for credit losses ratio as they would have more detailed information related to the activity within the loan amount.

Q3. Does the Board agree with the staff's recommendation related to the loan rollforward schedule?

Credit Risk Disclosures Related to the Collectively Evaluated Impaired Loan Allowance

Credit Quality Information

Scope

14. Before discussing potential credit quality disclosure requirements, the staff is presenting the Board with a recommendation on which assets should be included in the scope of such disclosures.
15. The staff's recommendation for the scope of credit quality disclosures includes all loans² and finance leases³ (financing receivables), except for the following:
 - a. Financing receivables that are past due
 - b. Loans that are impaired⁴
 - c. Financing receivables carried at fair value under the fair value option in FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, mortgage loans held for sale that are reported at LOCOM under FASB Statement No. 65, *Accounting for Certain Mortgage Banking Activities*, and loans measured at the present value of amounts to be received under AICPA Statement of Position 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*
 - d. Account receivables with contractual maturities of one year or less and that arose from the sale of goods or services, except for credit card receivables
 - e. Debt securities as defined in FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*
 - f. Unconditional promises to give that are assets of not-for-profit entities and that are due in one year or less, as discussed in FASB Statement No. 116, *Accounting for Contributions Received and Contributions Made*

² Statement 114, paragraph 4, defines a loan as "a contractual right to receive money on demand or on fixed or determinable dates that is recognized as an asset in the creditor's statement of financial position. Examples include but are not limited to accounts receivable (with terms exceeding one year) and notes receivable."

³ Lessors' investment in leases other than operating leases that have been recorded as assets following the provisions of FASB Statement No. 13, *Accounting for Leases* (for example, leveraged, direct financing, and sales-type leases).

⁴ Statement 114, paragraph 8, states that "a loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement."

- g. Purchased or retained beneficial interests as discussed in EITF Issue No. 99-20, “Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets.”
16. The staff recommends that past due financing receivables and impaired loans not be included in the credit quality disclosures since the staff believes those disclosures should provide the user with the information necessary to determine the credit risk of assets not past due or impaired and whether such assets are more or less likely to become past due or impaired in the future. If past due and impaired assets are included in the credit quality disclosures, it could make this information less transparent to the user as current, past due, and impaired loans would be aggregated.
17. The staff also notes that excluding past due finance receivables and impaired loans from the scope of the credit quality disclosures would be consistent with IFRS 7. IFRS 7 requires disclosure of information about the credit quality by class of financial assets that are not past due or not impaired. The staff reviewed a selection of IFRS financial statements and noted that institutions disclosed a high-level summary of their internal rating grid along with a summary of exposure on a per class of financial instrument basis along the internal rating grid or by rating assigned by an external rating agency.

Proposed Disclosure Requirements

18. The staff recommends an entity disclose, on a per class of financing receivable basis, qualitative and quantitative information about the credit quality of financing receivables that are not past due or not impaired. The credit quality information to be reported would be based on the management approach (for example, the credit indicators an entity uses to manage and assess credit risk in their loan portfolio). This would be a new disclosure requirement because U.S. GAAP currently does not require specific credit quality disclosures. The staff believes this information is readily available since it is currently being provided to users through quarterly investor presentations, press releases, and quarterly reports.

19. However, credit quality information would not be required for financing receivables that are measured at fair value, LOCOM, or NPV of estimated cash flows. The staff believes that due to the degree of turnover of these receivables, disclosure for those financing receivables that are measured at fair value or LOCOM should be on a class basis only.
20. Financial institutional regulatory agencies requested that if internal risk ratings are used by the entity, then specific categories and corresponding definitions for each internal grade should be required. This would provide a greater level of consistency and reduce the volume and complexity of the information presented. The staff agrees with these agencies and, therefore, recommends that to the extent that the following credit quality indicators are used by constituents, the additional implementation guidance be provided:
 - a. Internal risk ratings—required to reconcile the internal grade categories to “pass,” “special mention,” “substandard,” “doubtful,” and “loss” as defined in regulatory guidance, “Uniform Agreement on the Classification of Assets and Appraisal of Securities Held by Banks and Thrifts”
 - b. FICO scores—required to update the FICO scores on an annual basis and disclose the refresh date.

Q4. Does the Board agree with the staff’s recommendation related to credit quality disclosures as it pertains to the:

- a. Scope?***
- b. Level of disclosure defined as class?***
- c. Disclosure requirements?***

Past Due Financing Receivables

Scope

21. Before discussing potential past due financing receivable disclosure requirements, the staff is presenting the Board with a recommendation on which assets should be included in the scope of such disclosures.

22. The staff's recommendation for the scope of past due disclosures includes all past due loans and finance leases (financing receivables), except for the following:
- a. Loans that are impaired
 - b. Account receivables with contractual maturities of one year or less and that arose from the sale of goods or services, except for credit card receivables
 - c. Debt securities as defined in Statement 115
 - d. Unconditional promises to give that are assets of not-for-profit entities and that are due in one year or less, as discussed in Statement 116
 - e. Purchased or retained beneficial interests as discussed in Issue 99-20.

Proposed Disclosure Requirements

23. The staff recommends that the current required policy disclosures for determining past due or delinquency status be revised to require policy disclosure by class. For quantitative disclosures, the staff recommends financing receivables that are past due be disclosed by class of financial assets as well as in the aggregate with an analysis of the age of the financial assets that are past due but not impaired at the reporting date. The staff also recommends for loans accounted for under SOP 03-3 be required to report the analysis of past due on the contractual terms of the original loan document. The staff notes that these past due breakdowns are required to be provided by financial institutions in their applicable regulatory filings and also are generally disclosed in either the management discussion and analysis, press releases, or other quarterly presentations; however, the level of disclosure by class of financial asset is not always consistent quarter-over-quarter.
24. Certain users that the staff consulted requested disclosure of loans that are considered current but have been modified in the current year. This information would provide the user with a better understanding of the modifications made during the current year. The staff agrees with these users and, therefore, also recommends the requirement to disclose loans that are considered current but have

been modified in the current year that had previously been considered past due. This recommendation also would align the requirement in U.S. GAAP with IFRS related to past due loans, except for the additional requirement to disclose modified loans that are considered current.

25. IFRS 7 requires disclosure of (by class of financial asset) an analysis of the age of financial assets that are past due as of the reporting date but are not impaired, a description of collateral held by the entity as security and other credit enhancements, and, unless impracticable, an estimate of their fair value. However, at the December 2008 IASB Board meeting, the IASB Board tentatively decided to amend IFRS 7 and remove the entire collateral disclosure requirement.
26. The staff also recommends that an entity be required to reconcile current and past due financing receivable disclosures (gross loan carrying amount and associated allowance) to the collectively evaluated impaired loan allowance portion of the allowance for credit losses on a loan portfolio segment and aggregate basis. Based on the staff's recommendation, current financing receivables would represent the credit quality disclosure since it excludes past due financing receivables and impaired loans. The staff believes this reconciliation will provide the user with better information to support and perform analysis on the collectively impaired loan allowance.

Q5. Does the Board agree with the staff's recommendation related to past due disclosures as it pertain to the:

- a. Scope?***
- b. Level of disclosure defined as class?***
- c. Disclosure requirements?***

Q6. Does the Board agree with the staff's recommendation to require reconciliation between current and past due financing receivables and the collectively evaluated impaired loan allowance on a loan portfolio segment and aggregate basis?

Credit Risk Disclosures Related to the Individually Evaluated Impaired Loan Allowance

Impaired Loans

Scope

27. Before discussing potential impaired loan disclosure requirements, the staff is presenting the Board with a recommendation on what assets should be included in the scope of such disclosures.
28. The staff recommends the scope of the impaired loans (including trouble debt restructuring) disclosures be consistent as currently defined under Statement 114, paragraph 20.

Proposed Disclosure Requirements

29. The staff recommends that the current required policy disclosures for impaired loans (including trouble debt restructuring) be revised to require policy disclosure on a per class of financial asset basis. For quantitative disclosures, the staff recommends that the current impaired loan (including trouble debt restructuring) disclosures related to the total recorded investment, amount of that recorded investment for which there is a related allowance, the amount of that allowance, average recorded investment, and interest income recognized in individually impaired loans be modified to include the disaggregation of the impaired disclosures on a per class of financial asset basis as well as in the aggregate and disclosure of the factors the entity considered in determining that the loan is impaired.
30. The staff notes that the total recorded investment and associated allowance portion of the modified impaired loan disclosure will reconcile to the individually impaired loan allowance on a per class and aggregate basis. The staff believes this will provide further useful information to the financial statement user.

31. Financial institution regulatory agencies requested that the unpaid principal loan balance be disclosed in addition to the current U.S. GAAP impairment loan disclosures. They note that this would indicate to the financial statement user those loans with partial charge-offs or those acquired at a significant discount. The staff agrees with regulatory agencies and, therefore, recommends disclosing the impaired loan unpaid principal balance on a per class of financial asset basis as well as in the aggregate. The staff believes that preparers would have all this information as part of their support for their financial statements and would provide users more clarity into the impaired loans.
32. The staff believes this proposed disclosure would more closely align the current requirements under U.S. GAAP with those required by IFRS. IFRS 7 requires an analysis of financial assets that are individually determined to be impaired as of the reporting date, by class of financial asset, including the factors the entity considered in determining that they are impaired as well as a description of the collateral held as security and other credit enhancements and, unless impracticable, an estimate of their fair value. However, at the December 2008 IASB Board meeting, the IASB Board tentatively decided to amend IFRS 7 and remove the entire collateral disclosure requirement.
33. Additionally, IFRS 7 currently requires disclosure of the carrying amount of financial assets, by class, that otherwise would be past due or impaired but whose terms have been renegotiated. However, at the December 2008 IASB Board meeting, the IASB Board tentatively decided to amend IFRS 7 and remove this disclosure because it is difficult to identify financial assets whose terms have been renegotiated to avoid becoming past due or impaired rather than for other commercial reasons. The staff notes that IFRS does not define *troubled debt restructuring*.

Q6. Does the Board agree with the staff's recommendation related to impaired loan (including trouble debt restructuring) disclosures as it pertains to the:

a. Scope?

b. Level of disclosure defined as class?

c. Disclosure requirements?

Other Risk Credit Disclosures

Nonaccrual Financing Receivables

Scope

34. Before discussing potential nonaccrual financing receivable disclosure requirements, the staff is presenting the Board with a recommendation on which assets should be included in the scope of such disclosures.
35. The staff's recommendation for the scope of nonaccrual disclosures includes all loans and finance leases (financing receivables) that are nonaccrual, except for the following:
- a. Account receivables with contractual maturities of one year or less and that arose from the sale of goods or services, except for credit card receivables
 - b. Debt securities as defined in Statement 115
 - c. Unconditional promises to give that are assets of not-for-profit entities and that are due in one year or less, as discussed in Statement 116
 - d. Purchased or retained beneficial interests as discussed in Issue 99-20.

Proposed Disclosure Requirements

36. The staff recommends that the current required policy disclosures for nonaccrual loans be revised to require policy disclosure on a per class of financial asset basis. For quantitative disclosures, the staff recommends disclosures be disaggregated by class to enhance the consistency of the disclosures as well as to allow users to interpret data and see relationships between data points on a per class of financial

asset basis. The staff notes that these nonaccrual breakdowns are required to be provided by financial institutions in their applicable regulatory filings and also are generally disclosed in either the management discussion and analysis, press releases, or other quarterly presentations; however, the level of disclosure by class of financial asset is not always consistent quarter-over-quarter.

37. There are no similar disclosure requirements under IFRS because IFRS does not have the concept of nonaccrual loans. Paragraph AG93 of IAS 39, *Financial Instruments: Recognition and Measurement*, states that “once a financial asset has been written down as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.”

Q7. Does the Board agree with the staff’s recommendation related to nonaccrual disclosures as it pertains to the:

- a. Scope?***
- b. Level of disclosure defined as class?***
- c. Disclosure requirements?***

APPENDIX B—Description of Decisions Reached at the March 18, 2009 Board Meeting Included on Loan Loss Disclosures Page of the FASB’s Website

The proposed objective of the standard: A creditor should disclose information that allows a user of its financial statements to understand the credit characteristics of its loan and lease portfolio and how management considers those characteristics in determining the allowance for credit losses. To achieve that objective, a creditor shall disclose its accounting policies, the methods it uses to determine the components of the allowance for credit losses, and qualitative and quantitative information about the credit risk inherent in the loan portfolio.

Proposed definitions:

- a. **Class**—To provide a context for the understanding of the disclosures, a creditor shall disclose information that enables users of its financial statements to evaluate the nature and extent of credit risk exposures arising from loans the creditor holds at the date of the financial statements, based on the principle determination of *class* as described below:
 - (1) Classes at a minimum must segregate financial assets based on measurement attribute (amortized cost, fair value, lower of cost or fair value (LOCOM), and net present value of estimated cash flows).
 - (2) Classes then must be disaggregated to the level that management utilizes when internally assessing and monitoring risk and performance of the portfolio. In determining the appropriate level of internal reporting to use as a basis for disclosure, the reporting entity shall consider the level of detail needed by a user to identify the risks in the portfolio. For example, consideration should be given to, but not limited to, the following:
 - a. Meaningful categorization of borrowers (for example, commercial loans, consumer loans, and related parties)
 - b. Type of loan (for example, mortgage loans, credit card loans, and finance leases)
 - c. Significant industry sector (for example, real estate and mining)
 - d. Type of collateral (for example, residential property, commercial property, government guaranteed, and unsecured)
 - e. Geographic distribution of the loans, including domestic and international loans
 - f. The requirements of FASB Staff Position SOP 94-6-1, *Terms of Loan Products That May Give Rise to a Concentration of Credit Risk*.

An entity shall determine, in light of the facts and circumstances, how much detail it must provide to satisfy the requirements of this Statement, how much emphasis it places on different aspects of the requirements, and how it

disaggregates information for assets with different risk characteristics. The entity must strike a balance between obscuring important information as a result of too much aggregation and overburdening financial statements with excessive detail that may not assist financial statement users to understand the entity's financial position. For example, an entity shall not obscure important information by including it with a large amount of insignificant detail. Similarly, an entity shall not disclose information that is so aggregated that it obscures important differences between the different types of involvement or associated risks.

- b. **Financing Receivables**—Includes loans as defined in paragraph 4 of FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan*, and the lessors' investment in leases other than operating leases that have been recorded as assets following the provisions of FASB Statement No. 13, *Accounting for Leases*.
- c. **Gross Loan Carrying Amount**—Outstanding principal adjusted for any charge-offs, deferred fees or costs on originated loans, and any unamortized premiums or discounts on purchased loans.
- d. **Loan Portfolio Segment**—The level at which a creditor develops and documents a systematic methodology to determine its allowance for losses. Each loan portfolio segment should contain loans with similar characteristics, such as risk classification, past due status, and loan type. Based on the segmentation of the loan portfolio, a creditor should estimate the collectively impaired loan allowance. This level shall coincide with existing creditors' requirements for developing and documenting its allowance for losses in accordance with SEC Staff Accounting Bulletin No. 102, *Selected Loan Loss Allowance Methodology and Documentation Issues*, and the *Interagency Policy Statement on Allowance for Loan and Lease Losses*.

Proposed disclosure requirements:

The Board believes an investor would be better able to assess the reported allowance for credit losses and the potential for future credit losses if creditors were required to provide certain existing disclosures on a per class or per loan portfolio segment basis and if some new information were made available, as summarized in the table below.

	Financing Receivables Individually Evaluated for Impairment (under FAS 114)			Financing Receivables Collectively Evaluated for Impairment (under FAS 5)		
Required Disclosures	By Loan Portfolio Segment	By Class	In Total	By Loan Portfolio Segment	By Class	In Total
Accounting policy disclosures:						
• Policy and method of determining the allowance for credit loss	X			X		
• Changes in accounting policy or method, if applicable (new requirement)	X			X		
• Loan charge-off policy	X			X		
• Policy for determining past due or delinquency status		X			X	
• Policy for placing and removing a financing receivable on nonaccrual status, and the policy for recording cash payments received on financing receivables on nonaccrual status		X			X	
Quantitative analysis of changes in account balances:						
• Rollforward of gross loan carrying amount for each period presented (new requirement)	X		X	X		X
• Rollforward of the allowance for credit losses	X		X	X		X
Credit quality disclosures:						
• Credit quality of financing receivables that are not past due or impaired (note 1) (new requirement)					X	X
• The aging of financing receivables that are past due but not impaired at the reporting date (note 2) (new requirement)					X	X
• The recorded investment in financing receivables that are past due 90 days or more and still accruing					X	X
• The amount of financing receivables that were current at the reporting date, but had been modified during the period (and were past due at the modification date) (note 2) (new requirement)					X	X
• Reconciliation of quantitative past due and credit quality disclosures to the gross loan carrying amount (new requirement)					X	X
• The disclosures currently required by paragraph 20 of FAS 114 (including TDRs)		X	X			
• The amount of commitments, if any, to lend additional funds to debtors owing receivables whose terms have been modified in a troubled debt restructuring.		X	X			
• The unpaid loan principal balance at the reporting date (new requirement)		X	X			
• The recorded investment in financing receivables on nonaccrual status as of the reporting date (note 3)		X	X		X	X

Note 1: This information would be provided for all financing receivables except debt securities, financing receivables that are past due or impaired, those carried at fair value, and certain others that will be described in the Exposure Draft. The reporting entity would group receivables based on the credit quality indicators management uses to manage and assess credit risk of its loan portfolio. Entities using their own internal risk rating categories shall also disclose a reconciliation of those reported amounts to the grade categories defined in the Uniform Agreement on the Classification of Assets and Appraisal of Securities Held by Banks and Thrifts, if applicable. Entities that group receivables using FICO scores shall update those scores on an annual basis and disclose the refresh date.

Note 2: This information would be provided for all financing receivables except debt securities, financing receivables that are impaired, and certain others that will be described in the Exposure Draft. For purposes of this disclosure, an entity would determine the past due status of a receivable accounted for under SOP 03-3 by reference to the contractual terms of the original loan document.

Note 3: This information would be provided for all financing receivables except debt securities and certain others that will be described in the Exposure Draft.