	FASB ES October 14, 2009 **IASB/FASB Joint BM October 26, 2009**	IASB Agenda Paper No.	**4**
		FASB Memo No.	**18**

Project	**Accounting for Financial Instruments**
Topic	**Financial Statement Presentation of Financial Instruments**

Purpose of this paper

1. This paper addresses financial statement presentation of financial instruments that the FASB has tentatively decided should be measured at fair value with some changes in fair value recognized in other comprehensive income (FV-OCI) or at amortized cost (an entity's own debt in certain situations) and the IASB has tentatively decided should be measured at amortized cost. This paper provides several presentation alternatives depending on whether the Boards decide to require fair value or amortized cost as the measurement attribute for those types of financial instruments. This paper includes samples of statements of financial position and samples of statements of performance to illustrate the various alternatives discussed.

Background

2. At the July 15, 2009 FASB Board meeting, the FASB tentatively decided that if an entity's business strategy is to hold debt instruments with principal amounts for collection of 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. The IASB tentatively decided that financial instruments for which (a) the objective of the entity's business model is to collect (or pay) contractual cash flows rather than sell (or settle) the instruments before its contractual maturity to realize fair value

changes, and (b) the instrument has particular contractual cash flow characteristics (formerly labelled as ‘basic loan features’) should be measured at amortized cost.

3. At the July 15, 2009 and August 13, 2009 FASB Board meetings, the FASB tentatively decided that the presentation of financial instruments that are measured at fair value with certain changes in fair value should be recognized in other comprehensive income. At the October 6, 2009 IASB Board meeting, the IASB tentatively decided that the presentation of and disclosures for financial instruments should be measured at amortized cost.

4. This paper is being presented to the Boards jointly for consideration. The staff is asking the FASB Board members whether they would like to reconsider their tentative decisions on presentation of financial instrument measured at fair value with certain changes in fair value being recognized in other comprehensive income and whether they would like to require separate presentation of fair value and fair value changes for financial instruments measured at amortized cost, if applicable. The IASB Board members are being asked whether they would like to reconsider their tentative decisions on presentation of financial instruments measured at amortized cost.

5. Some users of financial statements indicated that it would be useful to have both fair value and amortized cost information on the face of the statement of financial position. Other users requested that the information be available either in the footnote disclosures only or were ambivalent about whether the disclosures were in the footnotes or presented on the face of the primary financial statements. In this paper, all alternatives for presentation on the statement of financial position include presentation of both fair value and cost.

6. Many users have consistently indicated that separate presentation of credit losses, interest income/expense accruals and realized gains or losses provides useful information. Some users believe that presentation of such disaggregated information on the face of the performance statement would be useful. Others users would like the information to be available, but are less concerned about the location.

7. In this paper (although the credit losses recognized in net income will depend on the impairment model selected by the Boards, for example, continuous recognition of expected credit losses versus use of an impairment trigger), these amounts have been presented separately in the sample statement of performance.

8. In the context of the statement of performance, this paper only addresses the presentation of changes in fair value of the financial instruments that are not recognized in net income.

9. The alternatives discussed in this paper for the presentation of financial instruments are similar to disclosures proposed by the FASB in proposed FASB Staff Position FAS 107-a, *Disclosures About Certain Financial Assets*, and by the IASB in the Exposure Draft, *Investments in Debt Instruments,* which proposed amendments to IFRS 7, *Financial Instruments: Disclosures*. The majority of respondents to these exposure documents did not support their issuance. The staff believes that the majority of concerns raised by respondents have been addressed by the Boards in this project or no longer apply. Some of the most significant concerns/recommendations raised by respondents included (a) recommendations that the Boards address the accounting for financial instruments comprehensively rather than through a short-term project addressing only disclosures, (b) concerns about a new measurement model (incurred losses) that was not clearly defined and was different from either fair value or the amount being recognized in the financial statements, (c) concerns that the proposed disclosures would not improve comparability and understandability because financial instruments are measured under numerous measurement models, and (d) operational concerns about providing the required disclosures by the proposed effective date.

Statement of financial position

Issue 1: statement of financial position presentation if financial instruments are measured at fair value with certain changes recognized in other comprehensive income

10. As noted above, some users of financial statements indicated that it would be useful to have both fair value and amortized cost information on the face of the statement of financial position. At the July 15, 2009 FASB Board meeting, the FASB tentatively decided that for financial instruments measured at fair value with changes in fair value 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. Additionally, at the August 13, 2009 FASB Board meeting, the FASB tentatively decided that an entity also should be required to present a separate line item for cumulative credit losses for financial assets. Therefore, for financial assets, an entity would be required to separately present amortized cost, cumulative credit losses, other fair value adjustments, and fair value.

11. If the Boards decide that fair value is the appropriate measurement attribute for certain financial instruments with certain changes in fair value recognized in other comprehensive income, this issue addresses whether to require detailed presentation of both fair value and amortized cost information on the face of the statement of financial position.

Statement of financial position presentation for financial instruments in the FV-OCI category
If the Boards decide that fair value is the appropriate measurement attribute for certain financial instruments with certain changes in fair value recognized in other comprehensive income, what should be required on the statement of financial position?

Alternatives

(a) **Alternative 1—**Require separate presentation of amortized cost, fair value adjustments (separated by credit and other fair value changes for financial assets), and fair value on the face of the statement of financial position. An example of this presentation is included in Appendix A.

(b) **Alternative 2—**Require parenthetical disclosure of amortized cost.

   (i) **Alternative 2(a)—**Require presentation of amortized cost after credit losses and a reconciliation of amortized cost before credit losses to fair value in the notes to the financial statements. An example of the statement of position under this alternative is included in Appendix B.

   (ii) **Alternative 2(b)—**Require presentation of amortized cost before credit losses and a reconciliation to fair value in the notes to the financial statements.

   (iii) **Alternative 2(c)—**Require separate presentation of amortized cost after credit losses and cumulative credit losses [for example, debt securities held for collection of cash flows (amortized cost of $1,050, net of cumulative credit impairments of $200)].

Staff recommendation

12. The majority of the staff recommends Alternative 2(a). Those staff members believe that presenting a rollforward from amortized cost to fair value on the face of the statement of financial position unnecessarily complicates the statement of financial position and may lead to confusion about whether the measurement attribute is amortized cost or fair value. Additionally, those staff members note that contra amounts are generally not shown on the face of the statement of position. For example, accounts receivable is generally reported net, with a parenthetical disclosure of the bad debt reserve. Staff members who support Alternative 2(a) note that by presenting amortized cost after credit impairments parenthetically, users of financial statements will have information about amortized

cost and cumulative non-credit fair value changes recognized in other comprehensive income. Those staff members believe that this information, along with the separate presentation of current period credit losses and current period fair value changes in other comprehensive income on the performance statement and a reconciliation of amortized cost before credit losses to fair value in the notes to the financial statements, provides users with useful information without adding complexity to the statement of financial position.

13. Those staff members who support Alternative 2(c) believe that cumulative credit losses should be presented on the face of the statement of financial position. However, those staff members agree with supporters of Alternative 2(a) that presenting a rollforward from amortized cost to fair value on the face of the statement of financial position unnecessarily adds complexity to the statement of financial position and takes away from the amount that is actually being recognized, which is at fair value.

Issue 2: statement of financial position presentation if financial instruments are measured at amortized cost

14. At the October 6, 2009 IASB Board meeting, the IASB tentatively decided that for financial instruments measured at amortized cost, fair value information should continue to be required to be disclosed in the notes to the financial statements but not required to be presented on the face of the statement of financial position. The IASB tentatively decided to propose that separate disclosure should be made of an allowance account, and that the disclosure should include a reconciliation incorporating minimum specified line items (for example, allocation of initial expected credit losses).

15. If the Boards decide that amortized cost is the appropriate measurement attribute for certain financial instruments, including an entities own debt, this issue addresses whether to require detailed presentation of cumulative changes in fair value on the face of the statement of financial position.

Statement of financial position presentation for financial instruments measured at amortize*d cost*
If the Boards decide that amortized cost is the appropriate measurement attribute for certain financial instruments, what should be required on the statement of financial position?

Alternatives

(a) **Alternative 1—**Require separate presentation of fair value, fair value changes, cumulative credit impairments (if applicable), and amortized cost on the face of the statement of financial position. Because cumulative credit impairments are included in amortized cost, which is the amount recognized in the financial statements, cumulative credit impairments would be presented parenthetically. An example of this presentation is included in Appendix C.

(b) **Alternative 2—**Require parenthetical disclosure of fair value.

   (i) **Alternative 2(a)**—Require presentation of fair value and a reconciliation to amortized cost before credit impairments in the notes to the financial statements. An example of the statement of position under this alternative is included in Appendix D.

   (ii) **Alternative 2(b) —**Require presentation of fair value and cumulative credit losses [for example, debt securities held for collection of cash flows, net of cumulative credit impairments of $200 (fair value – $1,350)].

Staff recommendation

16. The staff notes that the above alternatives would provide the same information for financial instruments measured at amortized cost as the alternatives provided for financial instruments measured at fair value with certain amounts recognized in other comprehensive income in Issue 1. Therefore, for the reasons described in Issue 1, the majority of the staff supports Alternative 2(a).

17. Those staff members believe that information about amortized cost and fair value, along with the separate presentation of current period credit losses in the performance statement and a reconciliation of fair value to amortized cost before credit losses in the notes to the financial statements, provides users with useful information without adding complexity to the statement of financial position.

Statement of performance

Issue 3: statement of performance presentation if financial instruments are measured at fair value with certain (or all) changes recognized in other comprehensive income

18. The FASB has decided that a critical component of the FASB FV-OCI model is that fair value changes recorded in other comprehensive income be reported more prominently and at the same time as net income. At the July 15, 2009 FASB Board meeting, the FASB tentatively decided to display the components of other comprehensive income below the net income amount in a single statement that reports results of operations. The FASB decided to require earnings per share based on net income only and not based on total comprehensive income. If the Boards decide that fair value is the appropriate measurement certain financial instruments with certain (or all) changes in fair value recognized through other comprehensive income, this issue addresses how changes in fair value recognized in other comprehensive income should be presented. This question is also relevant if the Boards decide that an entity would be permitted to make an irrevocable election to recognize changes in fair value in other comprehensive income for equity instruments that are not held for trading but are held for purposes other than realizing direct investment gains.

Statement of performance presentation for financial instruments in the FV-OCI category
Do the Boards wish to require the display of the components of other comprehensive income below the total for net income in a statement that reports the results of operations with earnings per share based on net income only?

Alternatives

(a) **Alternative 1—**Require the display of the components of other comprehensive income below the total for net income in a statement that reports the results of operations with earnings per share based on net income only. An example of this presentation is included in Appendix E.

(b) **Alternative 2—**Require that only those components of comprehensive income that result from fair value changes of financial instruments be displayed as supplemental information on the performance statement. An example of this presentation is included in Appendix F.

Staff recommendation

19. The staff recommends Alternative 1. This Alternative is consistent with the October 2008 Discussion Paper, *Preliminary Views on Financial Statement Presentation*, issued by the Boards in which the Boards exposed for comment the proposed method of presenting a single statement of comprehensive income for the period with separate subtotals for net profit (net income) and total comprehensive income on the same statement. The staff believes that Alternative 1 achieves the objective of raising the prominence of fair value changes recognized in other comprehensive income. The staff believes that including only fair value changes related to financial instruments on the face of the performance statements (Alternative 2) places more importance on that item within other comprehensive income compared to other items, such as translation adjustments and defined benefit pension costs, which may be more significant to an entity, depending on the entity.

Issue 4: statement of performance presentation if financial instruments are measured at amortized cost

20. At the October 6, 2009 Board IASB meeting, the IASB tentatively decided to propose that contractual interest revenue, the adjustment for allocation of initial expected credit losses, and the net interest revenue excluding initial expected losses should be separately presented on the face of the performance statement. In addition, the change in expectations of credit losses should also be separately presented on the face of the performance statement. Further disaggregation would be required in the notes to the financial statements.

21. If the Boards decide that amortized cost is the appropriate measurement attribute for certain financial instruments, including an entities own debt, this issue addresses whether to required separate presentation of current period changes in fair value, which have not been recognized in net income, on the face of the statement of performance.

Statement of performance presentation for financial instruments measured at cost
Do the Boards wish to require separate presentation of current period changes in fair value that have not been recognized in net income (that is, changes other than interest and credit) on the face of the statement of performance?

Staff recommendation

22. If the Boards decide that amortized cost is the appropriate measurement attribute for certain financial instruments, the staff recommends requiring separate presentation of current period changes in fair value that have not been recognized in net income on the face of the statement of performance. As noted previously, some users of financial statements indicated that it would be useful to have both fair value and amortized cost information for financial instruments. The staff notes that presenting current period changes in fair value that have not been recognized in net income on the statement of performance would provide users of financial statements with the same information for financial instruments measured at

amortized cost as provided for financial instruments measured at fair value with certain amounts recognized in other comprehensive income as described in Issue 3.

23. The staff notes that preparers have raised concerns about the time required to accumulate this information and the timing implications of requiring that the information be provided on the face of the financial statements, which are provided in earnings releases, rather than the financial statement footnotes. However, the staff believes that information about current period changes in fair value that have not be recognized in net income, along with information about amortized cost and fair value presented on the statement of financial position, current period credit losses in the performance statement, and information about cumulative credit and noncredit changes in fair value in the statement of financial position or notes to the financial statements (see Issue 2), provides users of financial statements with useful information that outweighs the cost.

Highlights of appendixes

24. Appendixes A–G below illustrate the presentation of financial instruments for a hypothetical XYZ Bank based on the alternatives presented to the Boards in this paper. Appendixes A and E reflect the tentative decisions reached by the FASB on the presentation of financial instruments measured at fair value with certain changes in fair value recognized in other comprehensive income.

25. Financial assets and liabilities that have been recognized at fair value through earnings are not presented with amortized cost or fair value adjustment amounts. All long-term debt is either measured at fair value with changes recognized through other comprehensive income or at amortized cost (that is, there is no long-term debt measured at fair value through net income, which would require separate presentation of amortized cost in accordance with the FASB's tentative decision about the presentation of an entity's own debt measured at fair value through net income).

26. These appendixes assume that credit losses are recognized in net income even if amortized cost is greater than fair value. Therefore, in the example, $200 million in credit losses has been presented as a separate line item in the performance statement for debt securities even though fair value of these securities is greater than amortized cost before credit losses. The actual amount recognized and presented on the statement of financial position and performance statement will depend on the Boards' decisions on impairments.

27. Additionally, for simplicity purposes, these examples assume that all credit losses, other changes in fair value, and gains on sale of financial instruments held for collection occurred during the current period. Therefore, no recycling of prior period gains or losses is necessary and the cumulative credit impairments and other changes in fair value equal the current period change.

Appendix A – Issue 1, Alternative 1

XYZ Bank

Consolidated Balance Sheet as of 12/31/XX

Assets:		**$millions**
Cash		250
Accounts receivable		50
Trading Assets:		
Equity securities		3,000
Derivatives		2,750
Debt securities		400
Loans		1,150
Debt securities held for collection of contractual cash flows:		
Amortized cost before credit	1,250	
Cumulative credit impairments	(200)	
Accumulated non-credit fair value adjustment	300	1,350
Loans held for collection of contractual cash flows:		
Amortized cost before credit	6,750	
Cumulative credit impairments	(100)	
Accumulated non-credit fair value adjustment	(350)	6,300
Goodwill		350
Other assets (including PP&E)		400
Total Assets		**16,000**
Liabilities:		
Deposits:		
Amortized cost	5,800	
Accumulated remeasurement adjustment	(450)	5,350
Commercial paper and other borrowed funds		120
Trading Liabilities:		
Debt instruments		5,250
Derivatives		550
Deferred taxes		1,200
Long-term debt at fair value		
Amortized cost	2,000	
Accumulated fair value adjustment	(200)	1,800
Long-term debt at amortized cost		250
Total Liabilities		**14,520**
Equity:		
Common stock		300
Retained earnings		1,480
Accumulated other comprehensive income		(450)
Total XYZ Co. shareholders' equity		**1,330**
Noncontrolling interest		150
Total Equity		**1,480**
Total Liabilities and Equity		**16,000**

Appendix B – Issue 1, Alternative 2(a)

XYZ Bank

Consolidated Balance Sheet as of 12/31/XX

Assets:	**$millions**
Cash	250
Accounts receivable	50
Trading Assets:	
Equity securities	3,000
Derivatives	2,750
Debt securities	400
Loans	1,150
Debt securities held for collection of contractual cash flows (amortized cost – $1,050)	1,350
Loans held for collection of contractual cash flows (amortized cost – $6,650)	6,300
Goodwill	350
Other assets (including PP&E)	400
Total Assets	**16,000**
Liabilities:	
Deposits (amortized cost – $5,800)	5,350
Commercial paper and other borrowed funds	120
Trading Liabilities:	
Debt instruments	5,250
Derivatives	550
Deferred taxes	1,200
Long-term debt at fair value (amortized cost – $2,000)	1,800
Long-term debt at amortized cost	250
Total Liabilities	**14,520**
Equity:	
Common stock	300
Retained earnings	1,480
Accumulated other comprehensive income	(450)
Total XYZ Co. shareholders' equity	**1,330**
Noncontrolling interest	150
Total Equity	**1,480**
Total Liabilities and Equity	**16,000**

Appendix C - Issue 2, Alternative 1

XYZ Bank

Consolidated Balance Sheet as of 12/31/XX

Assets:	**$millions**
Cash	250
Accounts receivable	50
Trading Assets:	
Equity securities	3,000
Derivatives	2,750
Debt securities	400
Loans	1,150
Debt securities held for collection of contractual cash flows:	
Fair value	1,350
Accumulated fair value changes	(300)
Amortized cost (net of credit impairments of $200)	1,050
Loans held for collection of contractual cash flows:	
Fair value	6,300
Accumulated fair value changes	350
Amortized cost (net of credit impairments of $200)	6,650
Goodwill	350
Other assets (including PP&E)	400
Total Assets	**16,050**
Liabilities:	
Deposits:	
Remeasurement value	5,350
Accumulated remeasurement changes	450
Amortized cost	5,800
Commercial paper and other borrowed funds	120
Trading Liabilities:	
Debt instruments	5,250
Derivatives	550
Deferred taxes	1,000
Long-term debt:	
Fair value	2,030
Accumulated fair value changes	220
Amortized cost	2,250
Total Liabilities	**14,970**
Equity:	
Common stock	300
Retained earnings	1,480
Accumulated other comprehensive income	(800)
Total XYZ Co. shareholders' equity	**980**
Noncontrolling interest	100
Total Equity	**1,080**
Total Liabilities and Equity	**16,050**

Appendix D – Issue 2, Alternative 2(a)

XYZ Bank

Consolidated Balance Sheet as of 12/31/XX

Assets:	**$millions**
Cash	250
Accounts receivable	50
Trading Assets:	
Equity securities	3,000
Derivatives	2,750
Debt securities	400
Loans	1,150
Debt securities held for collection of contractual cash flows (fair value – $1,350)	1,050
Loans held for collection of contractual cash flows (fair value – $6,300)	6,650
Goodwill	350
Other assets (including PP&E)	400
Total Assets	**16,050**
Liabilities:	
Deposits (remeasurment value – $5,350)	5,800
Commercial paper and other borrowed funds	120
Trading Liabilities:	
Debt instruments	5,250
Derivatives	550
Deferred taxes	1,000
Long-term debt (fair value – $2,030)	2,250
Total Liabilities	**14,970**
Equity:	
Common stock	300
Retained earnings	1,480
Accumulated other comprehensive income:	-800
Total XYZ Co. shareholders’ equity	**980**
Noncontrolling interest	100
Total Equity	**1,080**
Total Liabilities and Equity	**16,050**

Appendix E - Issue 3, Alternative 1

XYZ Bank

Consolidated Statement of Comprehensive Income for the Year Ended 12/31/XX

		$millions
Revenue		
Lending and deposit related fees		300
Trust and investment fees		200
Credit card income		50
Other income		300
Net realized and unrealized gains (losses) on financial instruments at fair value through net income		400
Gains on sales of financial instruments held for collection of contractual cash flows		350
Noninterest revenue		1,600
Interest income	1,120	
Less interest expense	(720)	
Net interest income		400
Total net revenue		**2,000**
Credit impairments		300
Noninterest expenses		
SG&A		375
Income before taxes		**1,325**
Less taxes		(425)
Net income		**900**
Less: Net income attributable to noncontrolling interest		(75)
Net income attributable to XYZ Bank		**825**
Other comprehensive income, before tax:		
Fair value adjustment		600
Currency translation adjustment		175
Defined benefit pension plans		(250)
Effective portion of cash flow hedge		100
Other comprehensive income, before tax		**625**
Income tax expense related to items of other comprehensive income		(200)
Other comprehensive income, net of tax		**425**
Comprehensive income attributable to noncontrolling interest		35
Comprehensive income attributable to XYZ Bank		**390**
Total comprehensive income attributable to XYZ Bank		**1,215**
Earnings per share—basic and diluted		
Basic earnings per share		$0.83
Diluted earnings per share		$0.69
Average Shares Outstanding		
Basic		1,000
Diluted		1,200

Appendix F - Issue 3, Alternative 2
XYZ Bank
Statement of Income for the Year Ended 12/31/XX

		$millions
Revenue		
Lending and deposit related fees		300
Trust and investment fees		200
Credit card income		50
Other income		300
Net realized and unrealized gains (losses) on financial instruments at fair value through net income		400
Gains on sales of financial instruments held for collection of contractual cash flows		350
Noninterest revenue		1,600
Interest income	1,120	
Less interest expense	(720)	
Net interest income		400
Total net revenue		**2,000**
Credit impairments		300
Noninterest expenses		
SG&A		375
Income before taxes		**1,325**
Less taxes		(425)
Net income		**900**
Less: Net income attributable to noncontrolling interest		(75)
Net income attributable to XYZ Bank		**825**
Earnings per share—basic and diluted		
Basic earnings per share		$0.83
Diluted earnings per share		$0.69
Average Shares Outstanding		
Basic		1,000
Diluted		1,200
Supplemental information:		
Change in fair value of financial instruments recognized in other comprehensive income (net of taxes of $200)		**400**
Less: Change attributable to noncontrolling interest		(50)
Change in fair value recognized in other comprehensive income attributable to XYZ Bank		**350**

Appendix G - Issue 4

XYZ Bank

Statement of Income for the Year Ended 12/31/XX

		$millions
Revenue		
Lending and deposit related fees		300
Trust and investment fees		200
Credit card income		50
Other income		300
Net realized and unrealized gains (losses) on financial instruments at fair value		400
Gains on sales of financial instruments held for collection of contractual cash flows		350
Noninterest revenue		1,600
Interest income	1,120	
Less interest expense	(720)	
Net interest income		400
Total net revenue		**2,000**
Credit impairments		300
Noninterest expenses		
SG&A		375
Income before taxes		**1,325**
Less taxes		(425)
Net income		**900**
Less: Net income attributable to noncontrolling interest		(75)
Net income attributable to XYZ Bank		**825**
Earnings per share—basic and diluted		
Basic earnings per share		$0.83
Diluted earnings per share		$0.69
Average Shares Outstanding		
Basic		1,000
Diluted		1,200
Supplemental information:		
Change in fair value of financial instruments recognized at amortized cost		**600**