

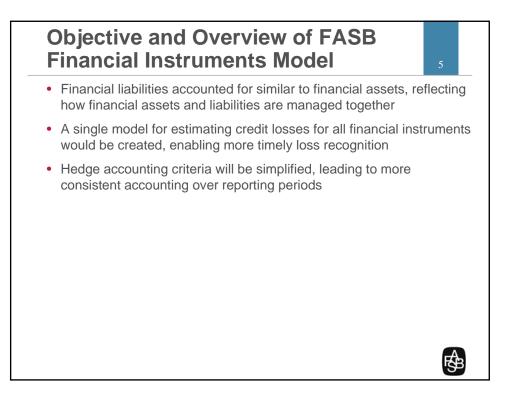
Objective and Overview of FASB Financial Instruments Model

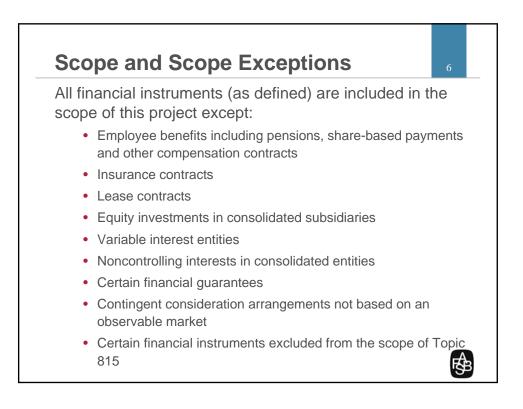
- The objective of the model is to provide information about (1) how an entity operates its business (business model) and (2) the risks inherent in the financial instruments the entity uses in operating its business.
- Financial instruments that have variable cash flows or that are regularly traded are accounted for at fair value with changes in fair value recognized in net income.
- For financial instruments for which it is an entity's business strategy to collect or pay the related cash flows information is provided about both the entity's business model (amortized cost) and the risks inherent in the instruments (fair value) in both the balance sheet and the performance statement.

Objective and Overview of FASB Financial Instruments Model

- From the balance sheet perspective an entity will present the amortized cost balance of the instrument, cumulative credit impairments, and the fair value of the instrument. The balance sheet will total to fair value as the Board believes the fair value attribute provides more relevant information than amortized cost.
- Given that fair value is the more predominant measurement attribute in this model equity needs to total to fair value. As a result, from the performance statement perspective the entity will recognize in net income current period interest accruals and for financial assets an amount attributable to management's expectation of credit losses.
- OCI is then generally used for items in which management expects the changes in fair value to reverse as the instruments are held for collection or payment of cash flows. OCI is also used for changes in fair value attributable to the market's estimate of credit losses on financial assets that are in excess of management's estimates.





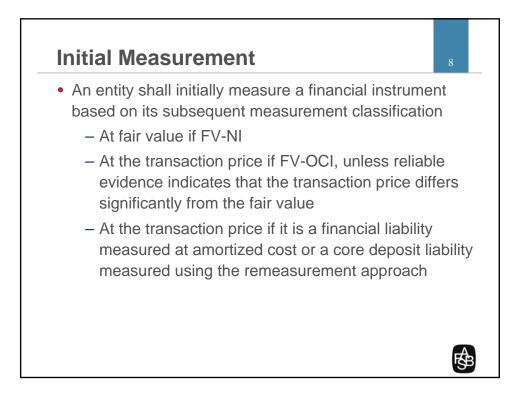


Proposed Classification and Measurement Model

- Most financial instruments would be measured on the balance sheet at fair value with either:
 - All changes in fair value recognized in net income (FV-NI), or
 - Qualifying changes recognized in other comprehensive income (FV-OCI)
- Limited amortized cost option for certain financial liabilities
- Certain short-term receivables and payables at amortized cost

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- Remeasurement approach for core deposit liabilities
- Redemption value (*limited application*)
- No reclassifications allowed



Subsequent Measurement: FV-NI Category

- Fair value with all changes in fair value recognized in net income (FV-NI) → Default
- Financial instruments required to be classified as FV-NI:
 - Trading instruments
 - Derivatives
 - Equity securities
 - Hybrid instruments containing embedded derivatives that would otherwise require bifurcation and separate accounting

Subsequent Measurement: FV-OCI Category

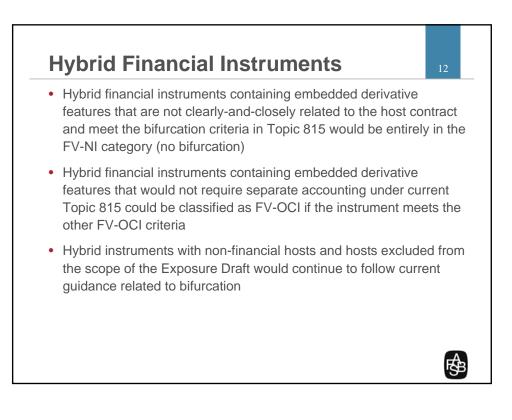
 An entity is eligible to measure a financial instrument at fair value with certain changes in fair value recognized in other comprehensive income (FV-OCI category) if:

- It is a debt instrument with a principal amount that will be returned at maturity or other settlement; and
- The entity's business strategy is to hold these debt instruments for collection or payment of contractual cash flows rather than to sell or settle with a third party
 - Instrument cannot be contractually prepaid such that the holder would not recover substantially all of its recorded investment
 - Based on how the entity manages financial instruments as a group rather than intent for an individual financial instrument
 - Must demonstrate that it holds instruments for a significant portion of their contractual terms



Subsequent Measurement: FV-OCI Category

- Examples of financial instruments that could qualify for FV-OCI:
 - Loans
 - Debt securities
 - Certain beneficial interests
- Instruments in the FV-OCI category will be subject to a credit impairment model



Example A – Callable or Puttable Debt

- Assume an interest-bearing debt instrument was issued at par and is either prepayable (callable) by the debtor at par or puttable by the creditor at par
- Analysis: The ability to accelerate the payment or collection of principal through exercise of the respective contractual call or put option would not prevent the business strategy criterion from being met

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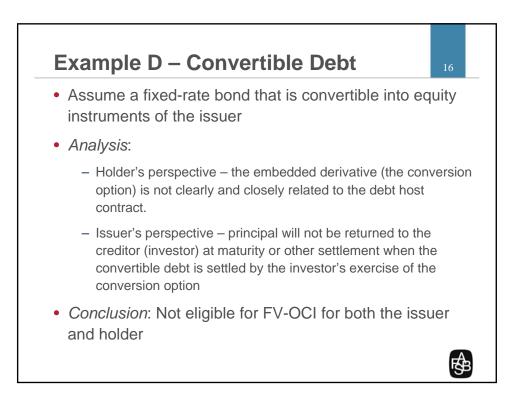
• Conclusion: May be eligible for FV-OCI

Example B – Commodity-Indexed Bonds

- Assume the issuance of an interest-bearing debt instrument for which the principal payable at maturity is adjusted for changes in the quoted market price of a traded commodity
- *Analysis*: The embedded derivative feature related to the indexing of the principal to be paid at maturity is not clearly and closely related to the related debt host contract.
- Conclusion: Not eligible for FV-OCI

Example C – Securitized Financial Assets

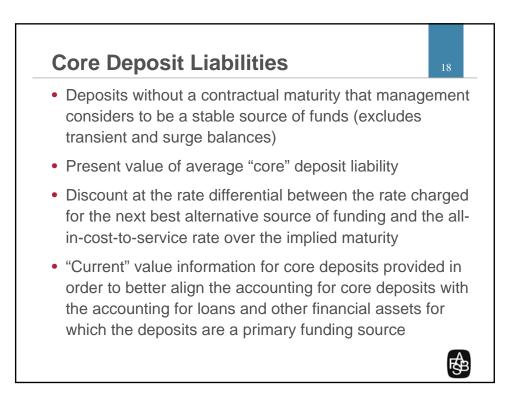
- Assume a securitization structure that holds interest-bearing bonds and has issued a credit default swap (CDS) on unrelated bonds then issues several tranches of beneficial interests.
- *Analysis*: The BI's embedded derivative feature related to the CDS is not clearly and closely related to the debt host contract.
- Conclusion: Investments in the BIs not eligible for FV-OCI.



Amortized Cost

- An entity may subsequently measure at amortized cost a financial liability that meets both of the following criteria:
 - It qualifies for the FV-OCI category
 - Measuring it at fair value would create or exacerbate a measurement attribute mismatch of recognized assets and liabilities
- An entity may also measure at amortized cost receivables and payables arising in the normal course of business that are due in customary terms not exceeding one year and that also meet the criteria for the FV-OCI classification

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Redemption Value

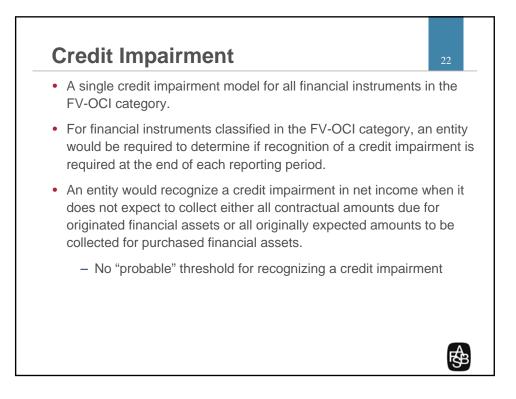
- An entity may subsequently measure an investment that has all of the following characteristics at its redemption value:
 - It is not held for capital appreciation but rather to obtain other benefits, such as access to liquidity or assistance with operations
 - It must be held for the holder to engage in transactions or participate in activities with the issuing entity
 - It cannot be redeemed for an amount greater than the entity's initial investment
 - It has no readily determinable fair value because ownership is restricted and it lacks a market
 - An example is stock in the Federal Reserve Banks that a financial institution must hold as a condition of membership in the system.

Baland	ce Sheet Presenta	tion 20	
	only fair value for instruments ed cost for entity's own debt.	in the FV-NI category; also	
 Financia follows: 	I assets within FV-OCI catego	ry would be presented as	
	Cost/Amortized Cost	XXX	
	Cumulative credit losses	(XX)	
	Residual FV Adjustment	(XX)	
	Fair Value	XXX	
 Financia follows: 	I liabilities within the FV-OCI c	ategory would be presente	d as
	Amortized Cost	XXX	
	FV Adjustment	(XX)	
	Fair Value	XXX	
	cumulated other comprehensiv ruments presented separately		₽

Performance Statement Presentation

• Continuous statement of comprehensive income

- Subtotal for net income with total comprehensive income
- EPS based on net income only
- Net income components unchanged:
 - Interest and dividend accruals
 - Credit impairments for financial assets
 - Realized gains & losses on sales or settlements
 - Components must be presented separately for FV-OCI instruments
- Recognized in other comprehensive income:
 - Remainder fair value change for FV-OCI instruments
 - Cumulative translation adjustment
 - Change in an entity's own credit standing, excluding changes in the price of credit, presented separately for FV-NI and FV-OCI liability instruments

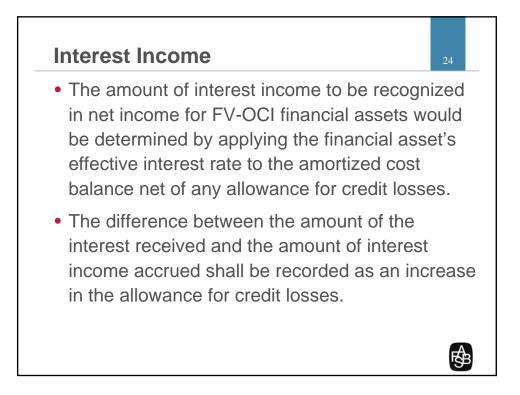


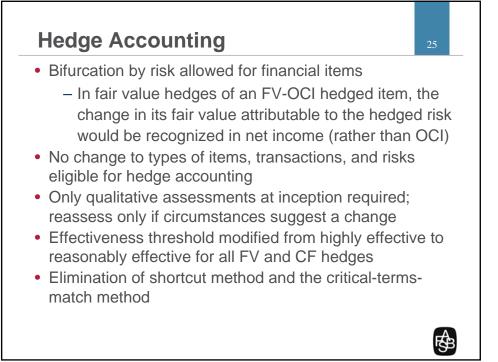
Credit Impairment

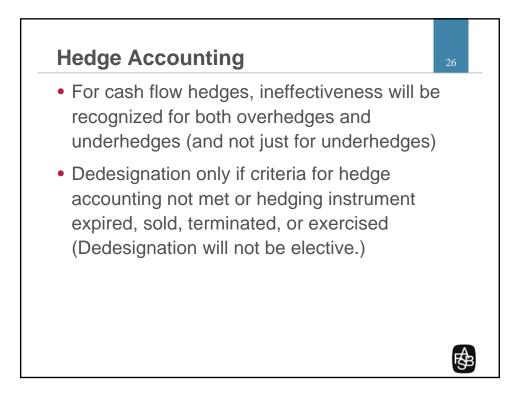
 The estimate of cash flows not expected to be collected based on all available information relating to past events, current conditions, and their implications that are relevant to the collectibility of the financial asset. An entity would not consider forecasts of possible future conditions

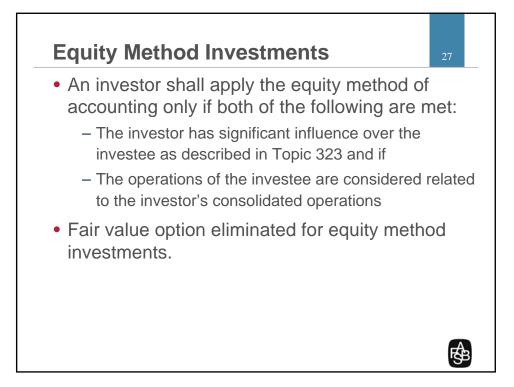
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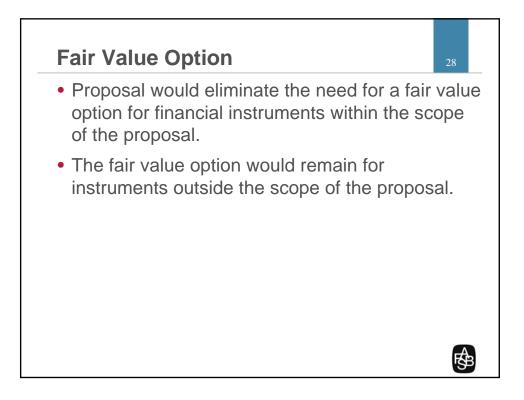
• Financial assets can be evaluated on an individual or pool basis.









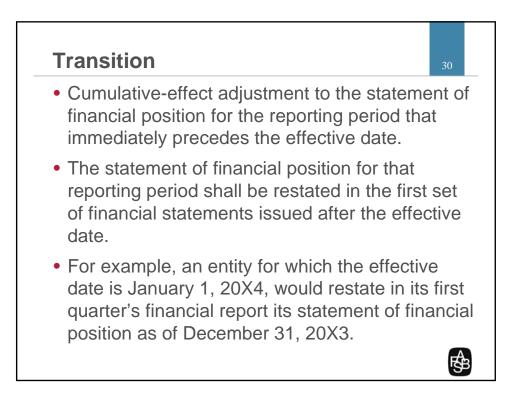




- Effective date will be established during redeliberations (not before 2013)
- Four year deferral for nonpublic entities with under \$1 billion in total consolidated assets from the following aspects of proposal:
 - Loans and loan commitments in the FV-OCI category (fair value of loans disclosed in the notes)

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- Core deposit liabilities in the OCI category



Future Activities

- Proposed amendments to the Codification to be issued end of July 2010
- Webcast
- Field visits and roundtables
- Investor outreach
- Comment letter process, including the Board's redeliberations

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• Final Update in 1st half 2011