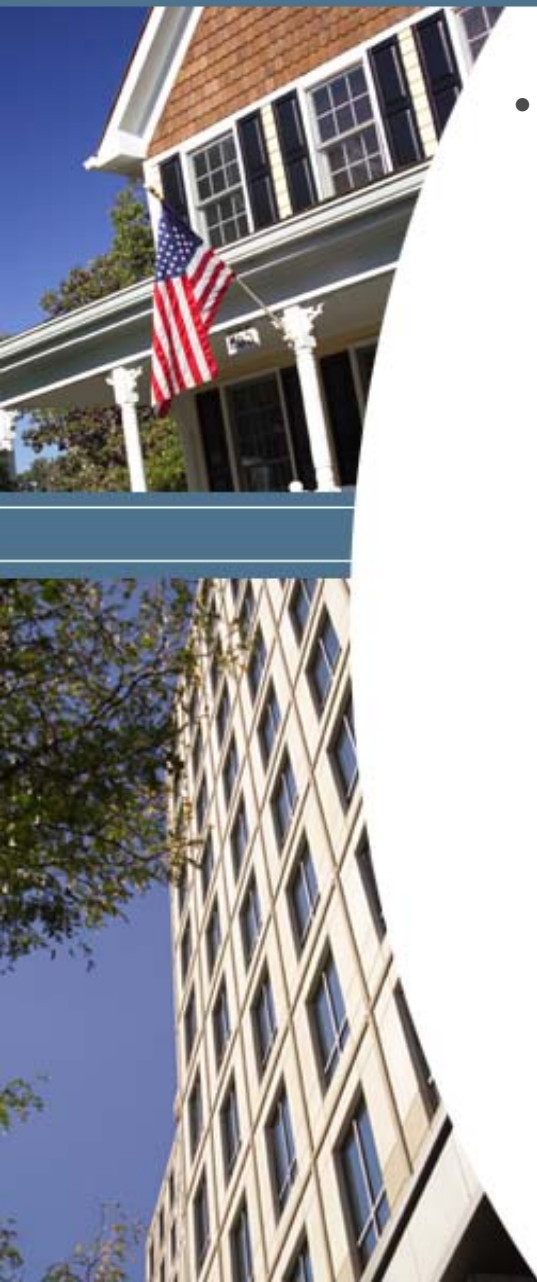




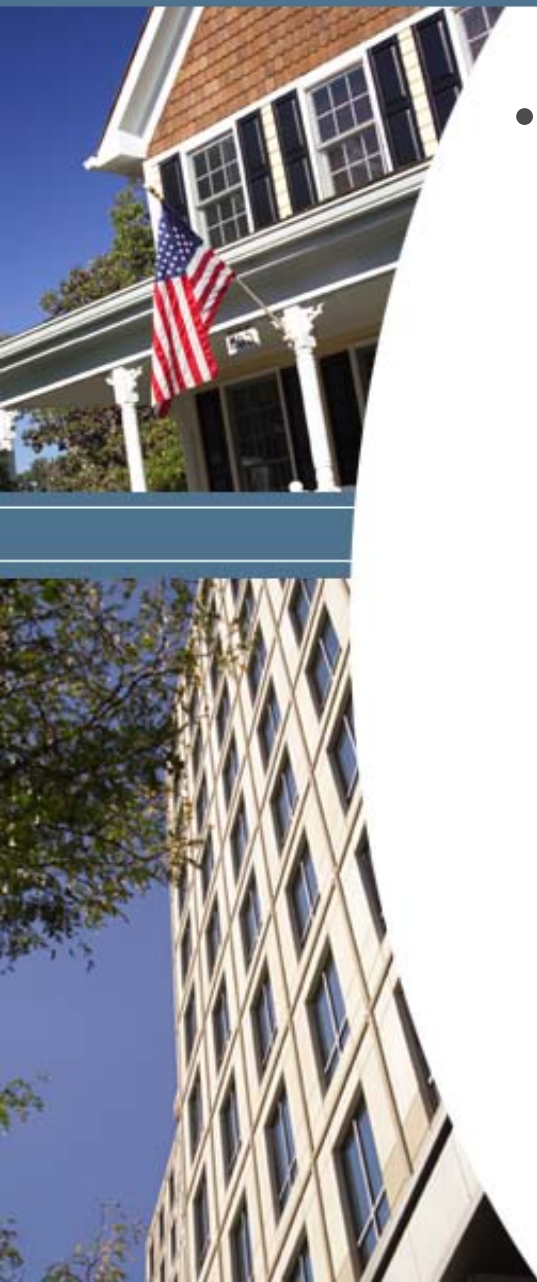
FASB and SEC Update

FASB Update

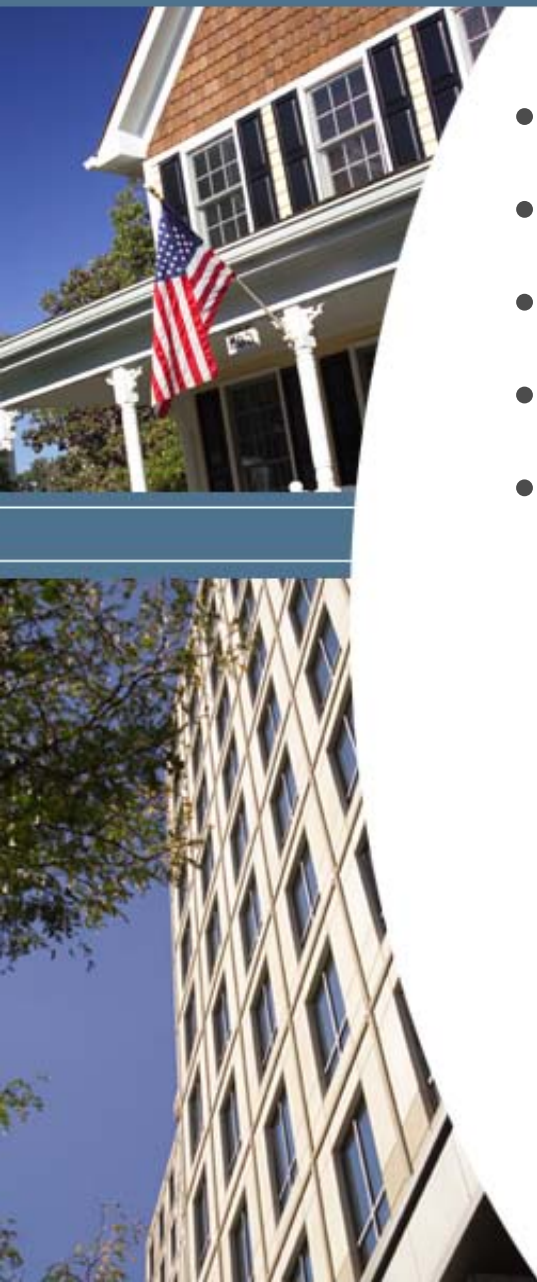
November 11, 2009



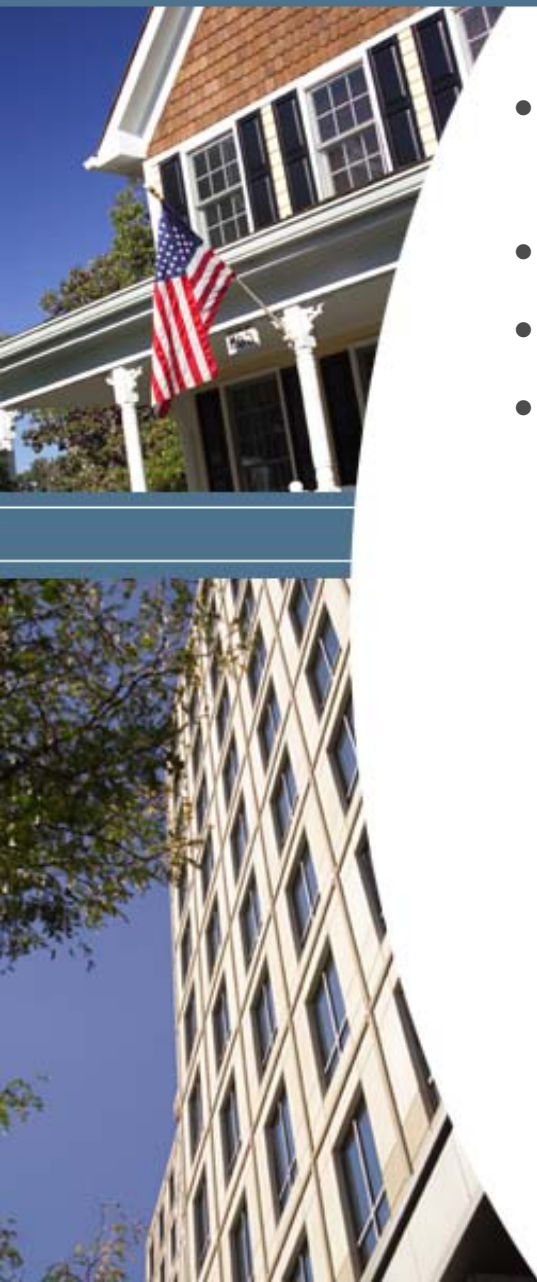
- The information in this document and oral discussion is intended to provide only a general outline of the subjects covered. It should not be regarded as comprehensive or sufficient for making decisions, nor should it be used in place of specific advice. This presentation is accurate, to the best of our knowledge and belief, as of the date hereof; however, it is based on general concepts and terms, and the existing or proposed accounting and other literature summarized herein may be amended or may change before it is issued in final form, and accordingly, appropriate research and or professional consultation should be performed and or obtained before applying the current or proposed GAAP literature to any specific transaction or specific business facts and circumstances. The presentation expresses the author's views and is not intended to be accounting, legal, or other professional advice.



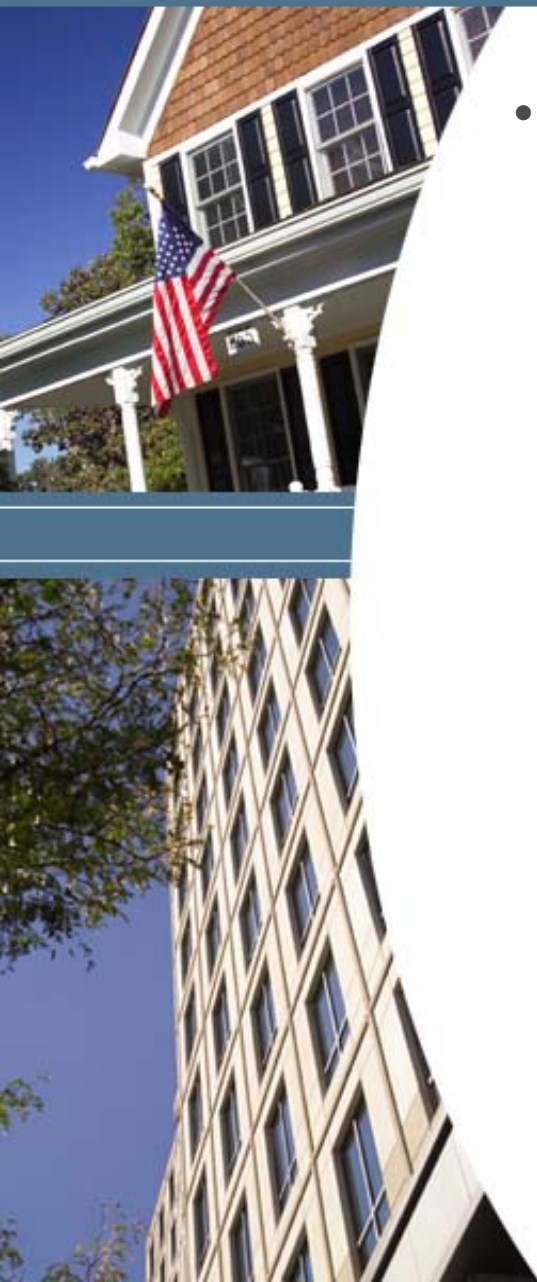
- FASB has been busy!
 - » Convergence
 - » Financial statement presentation
 - » Liabilities and equity
 - » Financial instruments
 - » Disclosures about loss contingencies
 - » Accounting for leases
 - » Revenue recognition

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- Convergence
 - Financial instruments
 - ALL – disclosures
 - Leases
 - Other developments

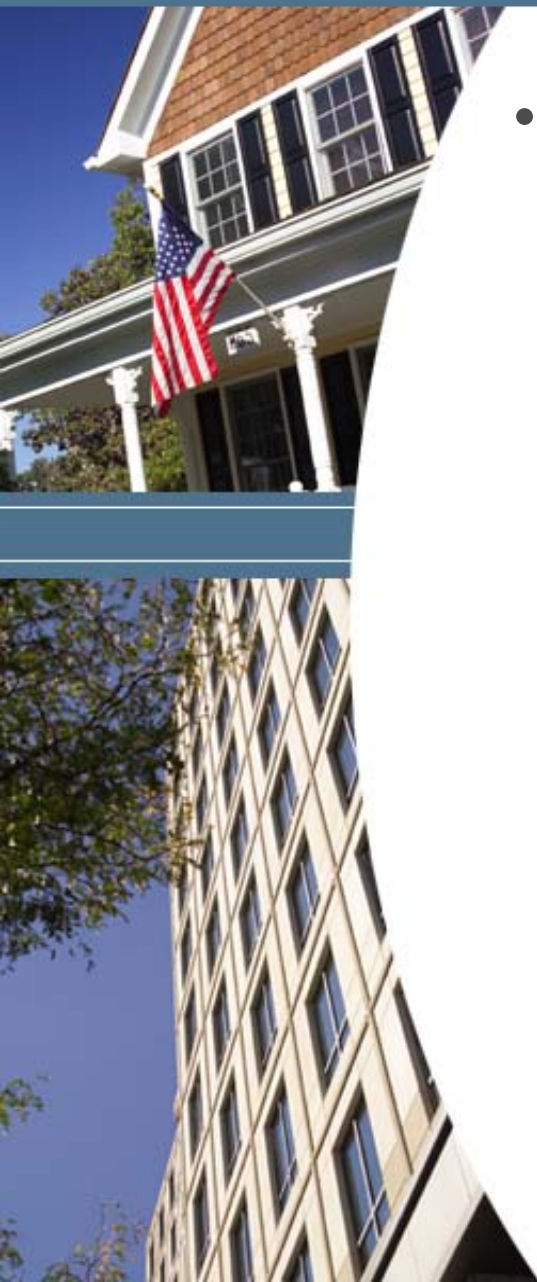
- FASB and IASB commitment to convergence (2006 Memorandum of Understanding, updated 2008)
 - » A Joint Statement of the FASB and IASB on November 5, 2009 (www.fasb.org)
 - » Main projects and their status:
 - Financial instruments
 - Consolidations
 - Derecognition for financial assets and liabilities
 - Fair value measurements
 - Revenue recognition
 - Leases
 - Equity instruments
 - Financial statement presentation

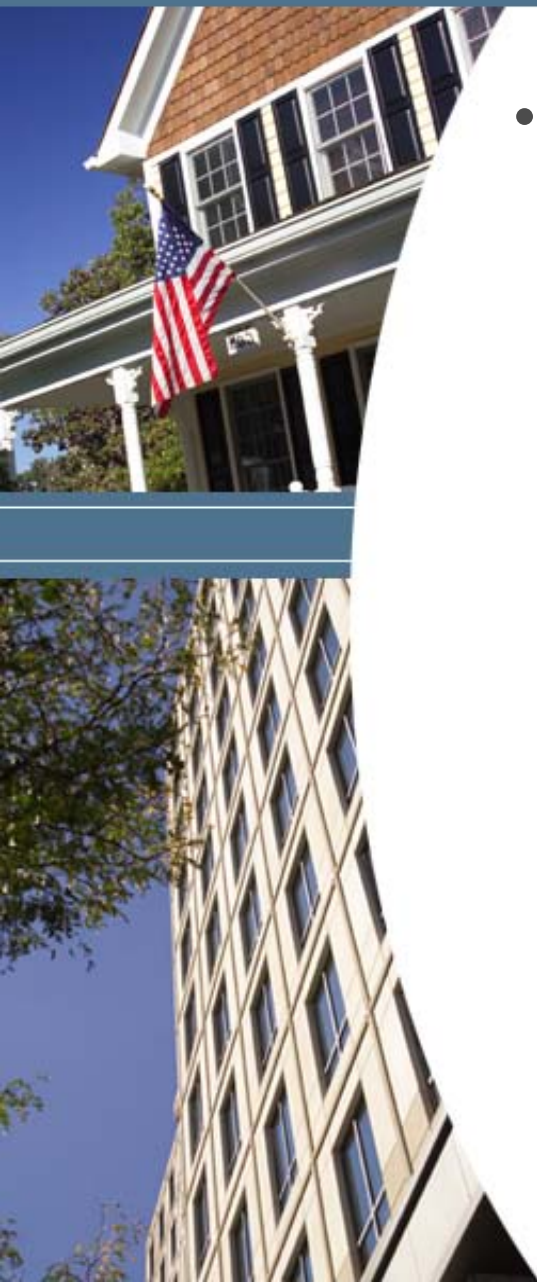


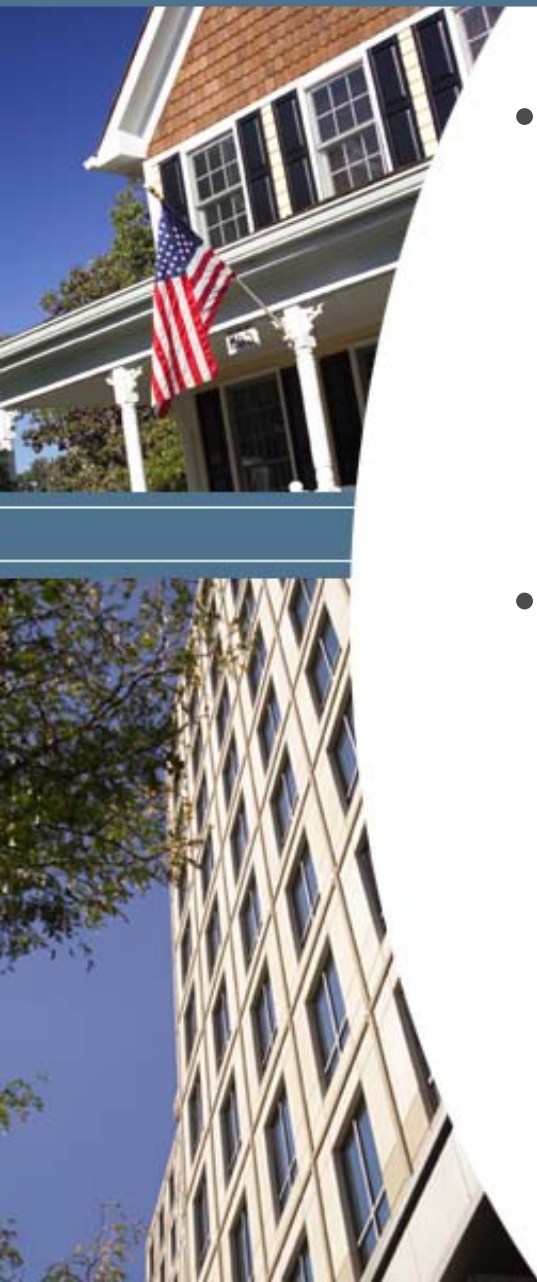
- Proposed update: 1st quarter 2010 addressing classification, measurement, impairment, and hedging
- Estimated issuance of final update: 4th quarter 2010
- Adoption not expected before 2011
- Classification, measurement, impairment, and hedging issues are interrelated

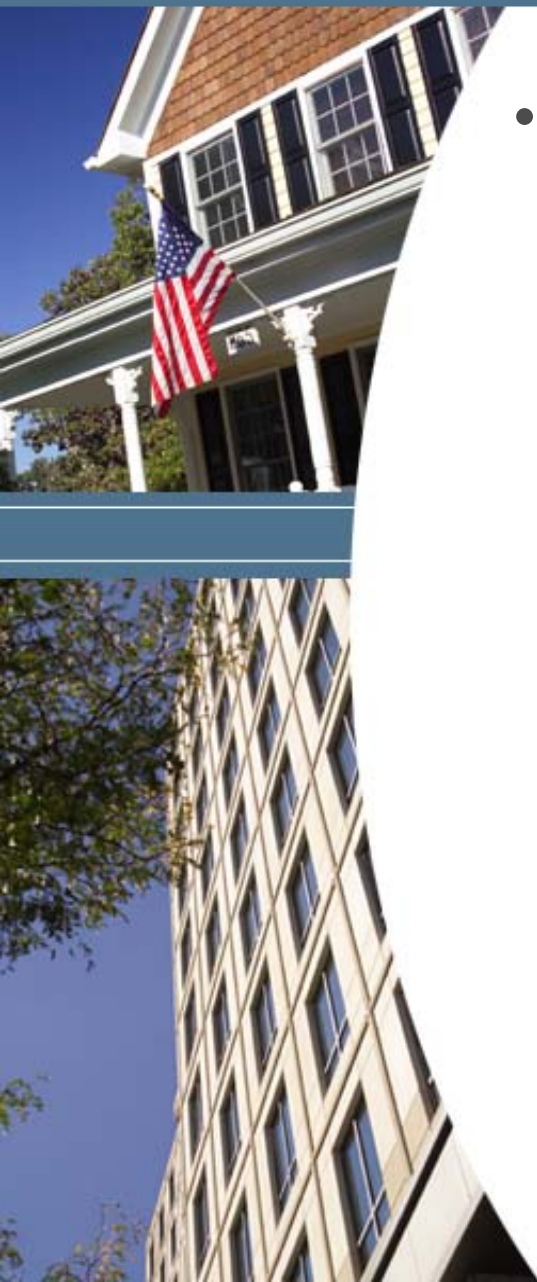


- The proposed model pertains to all financial instruments as defined in the Master Glossary of the FASB Accounting Standards Codification™, except:
 - » Employers' obligations for pension and other benefits
 - » Employee stock options
 - » Insurance contracts
 - » Non-controlling interests in consolidated subsidiaries
 - » Equity investments in consolidated subsidiaries
 - » Equity instruments issued by an entity and classified, in their entirety, in stockholders' equity
 - » An interest in a variable interest entity that the entity is required to consolidate
 - » Leases

- 
- FASB model:
 - » Initial measurement:
 - Fair value – net income (FV-NI) category: fair value
 - › if transaction price is different than FV, recognize the difference immediately as gain or loss
 - Fair value – net income + other comprehensive income (FV-NI & OCI) category: transaction price
 - › if transaction price is different than FV, recognize the difference in OCI at the first subsequent FV measurement
 - Transaction fees and costs:
 - › for FV-NI instruments – recognize in net income immediately
 - › for FV-NI & OCI instruments – deferred in OCI and recognized through yield adjustment

- 
- FASB model:
 - » Subsequent measurement – All in-scope financial instruments will be measured on the statement of financial position at fair value with changes in fair value reflected in:
 - Net income (FV-NI) or
 - Net income and other comprehensive income (FV-NI & OCI)
 - » A limited amortized cost option is available for financial liabilities
 - » Core deposit liabilities measurement – still discussed, no decision yet
 - » No reclassification permitted between categories

- 
- FV-NI category required for :
 - » Trading instruments
 - » Derivatives
 - » Equity securities
 - » Hybrid instruments (in their entirety) containing embedded derivatives that are not clearly and closely related to the host contract
 - FV-NI is the default classification
 - » Permitted to be used even if conditions for FV-NI & OCI classification are met



- FV-NI & OCI category is available to an entity if :
 - » The entity's business strategy is to hold debt instruments with principal amounts for collection or payment of contractual cash flows rather than to sell or settle the financial instruments with a third party
 - This evaluation should be based on how the entity manages its financial instruments rather than its intent for an individual financial instrument
 - The entity is required to demonstrate that it holds a high proportion of similar instruments for long periods of time relative to their contractual terms

- Statement of financial position:
 - » Only the fair value amount is required for instruments in the FV-NI category
 - » FV–NI+OCI Assets would be presented as follows:

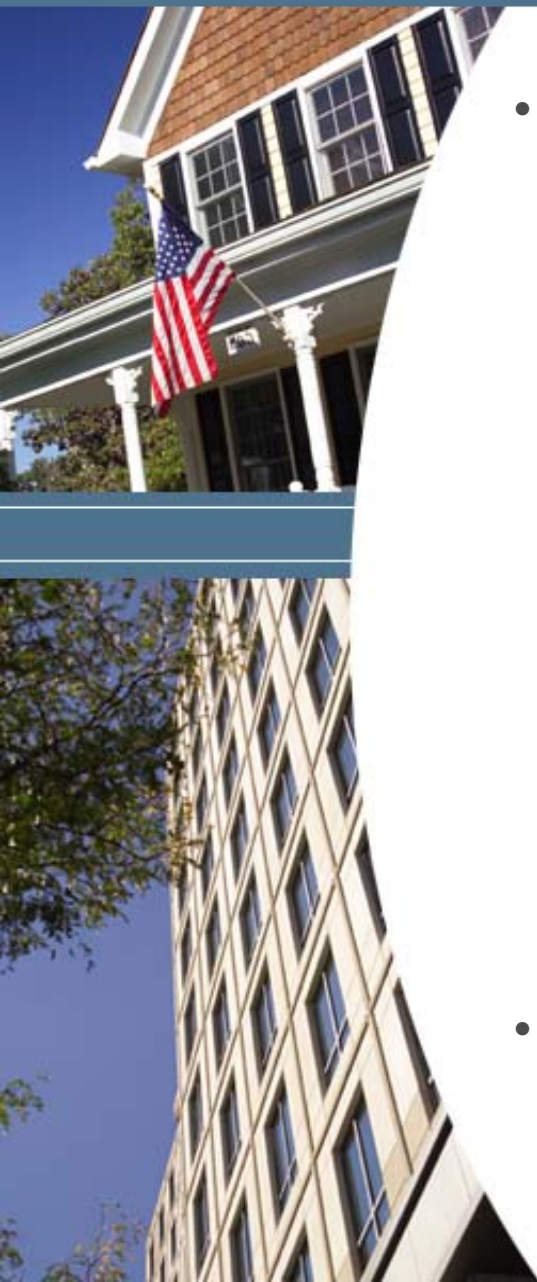
Cost / Amortized Cost	XXX
Cumulative Credit Losses	(XX)
Residual FV Adjustment	<u>(XX)</u>
Fair Value	XXX

- » FV–NI+OCI Liabilities would be presented as follows:

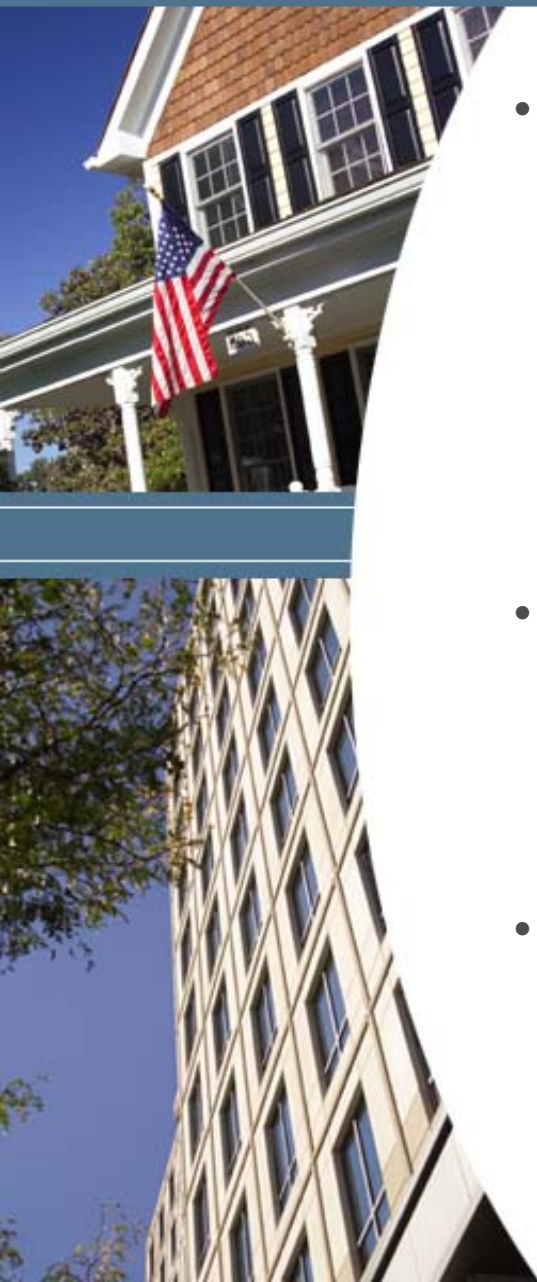
Cost/Amortized Cost	XXX
FV Adjustment	<u>(XX)</u>
Fair Value	XXX



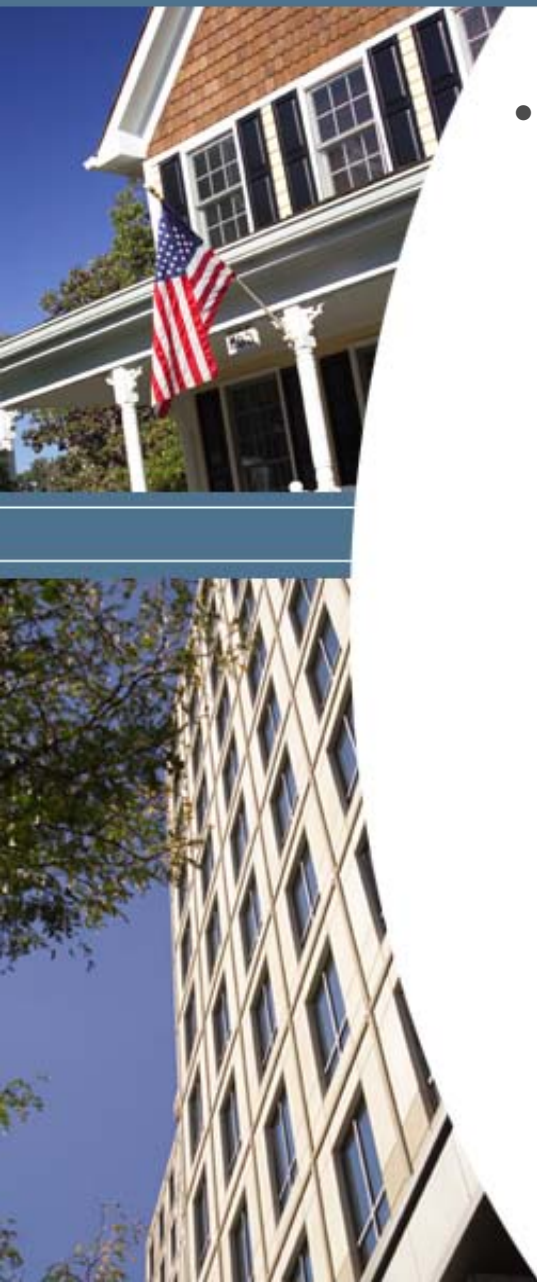
- Statement of income / performance:
 - » One statement of comprehensive income
 - » Subtotals for net income and other comprehensive income with EPS based on net income only
 - » Under both methods, net income includes:
 - Interest and dividends
 - Credit impairments for financial assets
 - Realized gains/losses on sales or settlements
 - Above need not be reported separately under FV-NI model; must be reported separately under FV-NI&OCI model
 - » Under FV-NI+OCI, OCI includes:
 - Entire change in fair value, excluding items reported in net income
 - Cumulative translation adjustment for equity securities
 - Above are reported in net income under FV-NI model



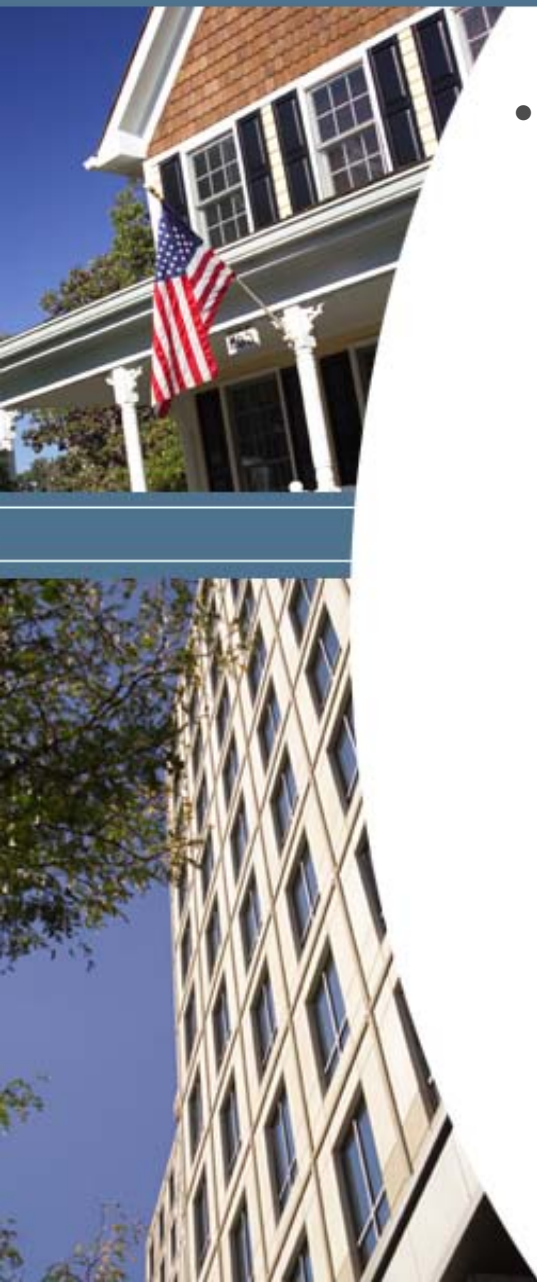
- October 21, 2009 meeting – accounting for credit losses (that is, credit impairments) related to financial assets in the fair value through OCI category. Below is a preliminary description of that model:
 - » At the end of each period, an impairment loss would be measured as the present value of management's current estimate of cash flows that are not expected to be collected.
 - » The impairment loss recognized in a period is the decrease in the net present value amount of cash flows expected to be collected.
 - » In estimating the amount of future cash flows, an entity would consider all available information relating to past events and existing conditions that are relevant to the collectibility of the financial assets, such as the remaining payment terms, the financial condition of the issuer, expected defaults, and collateral values, as well as existing environmental factors such as industry, geographical, economic, and political data that indicate that some contractual cash flows are not expected to be collected. The entity would not consider possible future scenarios.
- Interest income accounting – yet to be determined



- Scope:
 - » all financing receivables held by creditors; applies to both interim and annual reporting periods
 - » “Creditors” include all public and nonpublic entities that prepare financial statements in accordance with U.S. GAAP
 - » “Financing Receivables” include loans defined as a contractual right to receive money on demand or on fixed or determinable dates that are recognized as assets in the creditor’s statement of financial position, whether originated or acquired, and lessee’s investments in leases other than operating leases
- Status:
 - » October 14th meeting –summary of the comments received on the June 2009 exposure draft, and the plan for redeliberations
 - » The Board decided to move forward with its plans to enhance disclosures about credit quality and the allowance for credit losses independently from its project on accounting for financial instruments
- Proposed effective date:
 - » Annual and interim periods **ending after 12/15/09**



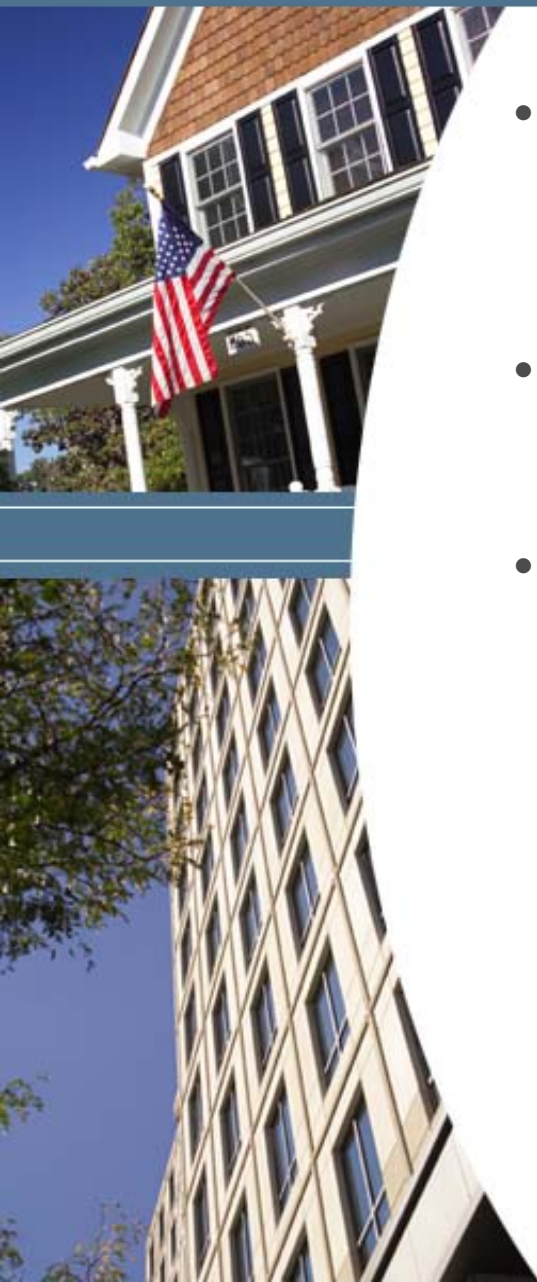
- Two defined levels of disaggregation:
 - » A portfolio segment is the level at which a creditor develops and documents a systematic methodology for determining its allowance for credit losses
 - For example: type of financing receivable, industry, and risk rates
 - » A class of financing receivable is a level of information that enables users of the financial statements to evaluate the nature and extent of exposure to credit risk arising from financing receivables that a creditor holds at the date of the financial statements
 - Determination of class is based on initial measurement attribute (amortized cost, fair value, etc.) and on the level of disaggregation that management uses for assessment and monitoring



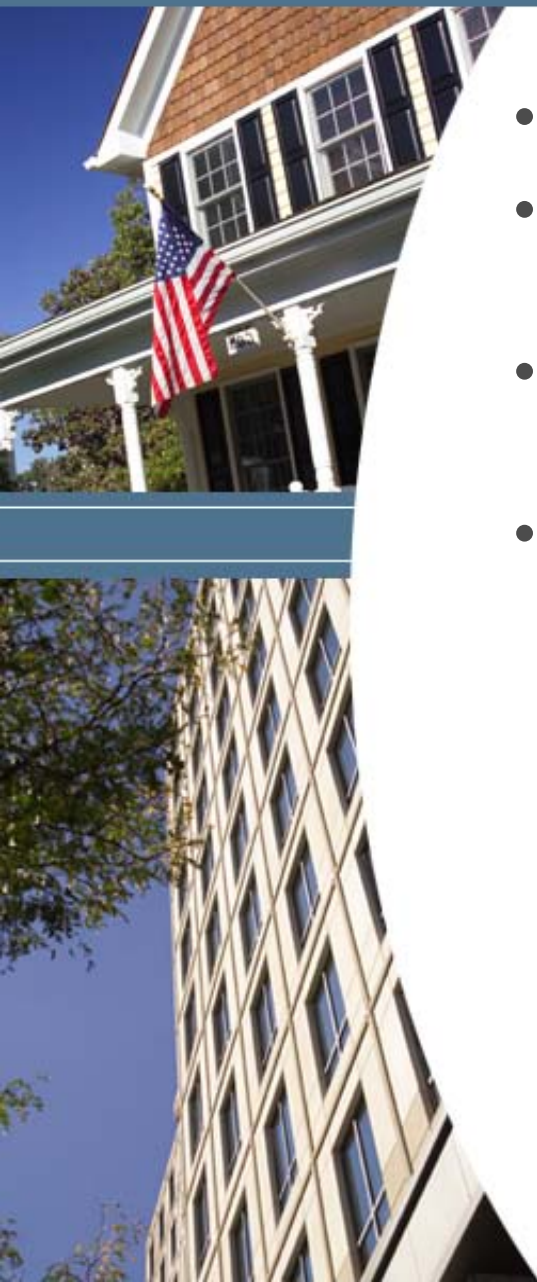
- New and enhanced disclosures, grouped by (A) financing receivables individually evaluated for impairment, and (B) financing receivables collectively evaluated for impairment:
 - » Rollforward schedules of gross loan carrying amount (Groups A and B)
 - » Credit quality of financing receivables (Group B)
 - » Aging of past due financing receivables (Group B)



- The rights and obligations arising under a simple lease contract and which of those rights and obligations met the definitions of assets and liabilities in the Conceptual Framework
- Lessee:
 - » Obligation to pay rentals (financial liability)
 - » Right to use leased item (asset)
- Initial measurement at the present value of the expected lease payments discounted using the lessee's incremental borrowing rate for secured borrowings
 - » Options to extend or purchase
 - » Contingent rents
 - » Residual value guarantees



- Presentation – Assets
 - » Leases not presented as right-of-use intangible asset
 - » Leases should be presented separately from, but adjacent to, owned assets on the statement of financial position
- Presentation – Liabilities
 - » Presented separately from other financial liabilities on the statement of financial position
- A right-of-use model for lessors



- Fair value measurements
- Transfer of financial instruments
 - » Covered later in the program
- VIE / SPE amendments
 - » Covered later in the program
- Financial Instruments with Characteristics of Equity
 - » Classification and measurement of equity instruments (e.g., preferred stock, etc.)

Questions?

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Ernst & Young LLP