

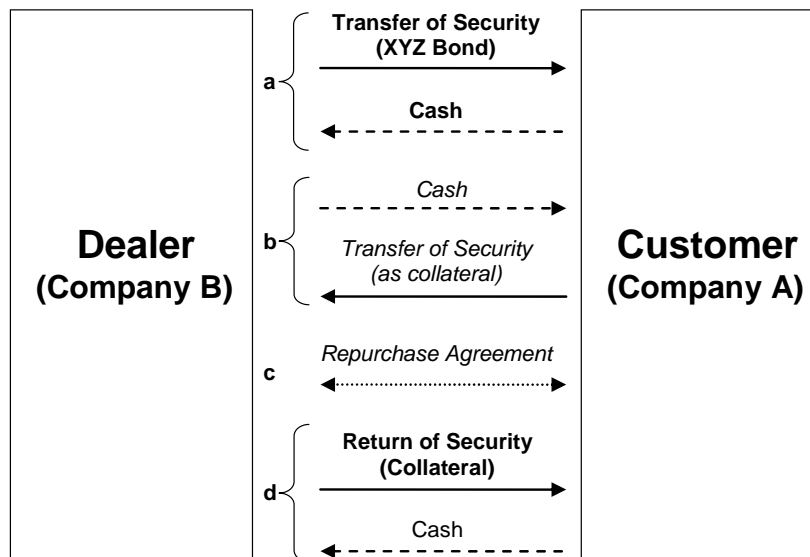
**Board Meeting Handout
Statement 140—Transfers of Financial Assets
March 14, 2007**

OBJECTIVE OF THE MEETING

The purpose of this meeting is for the Board to decide whether to provide guidance for a transfer of financial assets that involves a repurchase financing by a transferor as part of the transfers project on FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*.

BACKGROUND

Statement 140 addresses the accounting for a transfer of a financial asset when the transferor concurrently enters into a repurchase agreement to reacquire a transferred financial asset in the future at a specified price. Transactions involving repurchase agreements have become more complex, and constituents have asked for additional guidance on how a transferee would account for transactions involving transfers of financial assets with simultaneous or subsequent repurchase financing provided by a transferor. Constituents originally asked for guidance on a specific example transaction involving a security common in certain industries as outlined below:



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Transfer

- a. Company B (dealer) transfers a security to Company A (customer) in return for cash.

Repurchase Financing (Repurchase Agreement)

- b. Company B (dealer) finances the transaction concurrently by entering into a note receivable with full recourse to Company A (customer) who both returns the security to Company B (dealer) as collateral for the note and receives cash from Company B. Note that if the original transfer (as described in “a”) and financing are done with the same parties, the cash may be settled net.
- c. Company A (customer) enters into a repurchase agreement (a forward agreement) with Company B (dealer). The repurchase agreement obligates Company A to repurchase the security at a fixed or determinable price (generally the original sale price plus accrued interest) within a prescribed time period. Additionally, as part of the collateral requirements of the repurchase agreement, Company A (customer) may pay a deposit amount upfront, equal to a percentage (for example, 5 percent) of the principal amount of the security. Note that sometimes this step and step “b” together are described as a repurchase agreement.

Settlement of Repurchase Agreement

- d. Company A (customer) settles the repurchase agreement by delivering cash, and Company B (dealer) returns the security held as collateral to Company A.

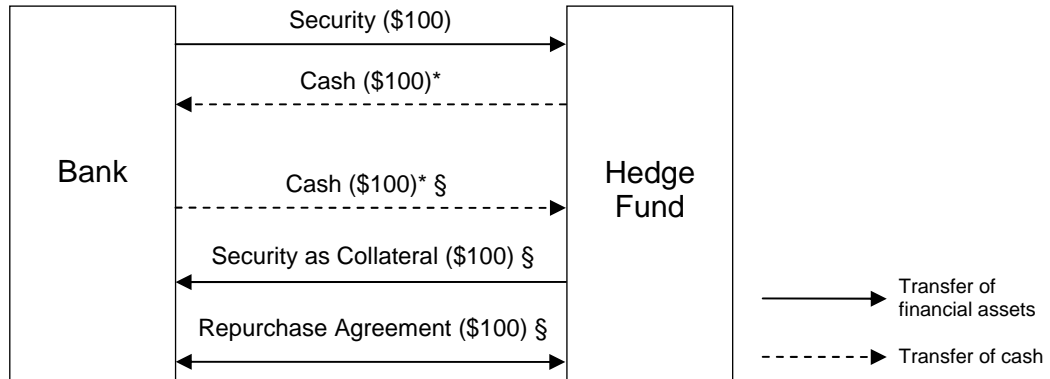
Additional Transactions/Information to Consider

The staff learned subsequent to the December 20, 2006, education session that similar transactions are entered into by hedge funds and by entities that utilize loan warehousing structures and that the accounting by both the transferor and the transferee appears to be inconsistent with Statement 140.

Illustrations of the specific transactions relating to hedge funds and entities that utilize warehousing structures are included below:

Hedge Fund Transaction

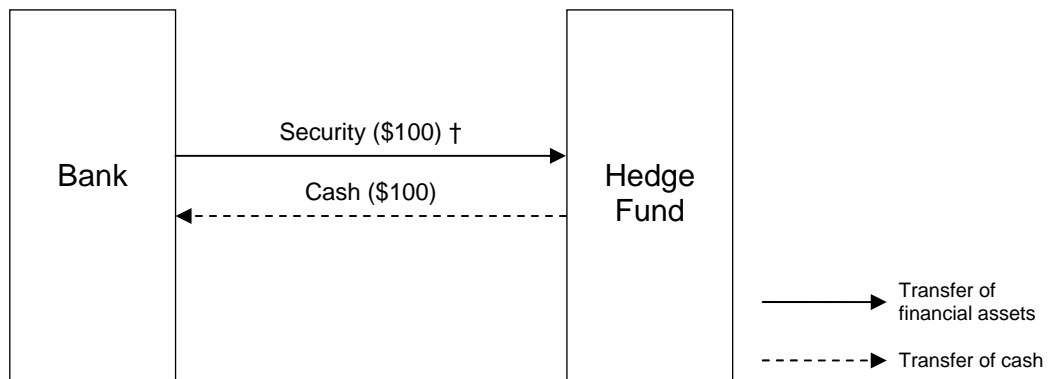
1. Initial Transfer and Repurchase Financing



§ Repurchase Financing—Hedge Fund enters into a repurchase agreement with the Dealer and transfers the asset (\$100) to the Dealer as collateral in exchange for cash. Some time may elapse between the initial transfers and the repurchase financing or they may occur simultaneously.

* May be settled with no net transfer or with two gross transfers (one from Bank to the Hedge Fund for \$100 for the repurchase and the other from the Hedge Fund to Bank for \$100 for the assets). There would be a fee or interest charged for the repurchase. This charge is excluded from the example for simplicity.

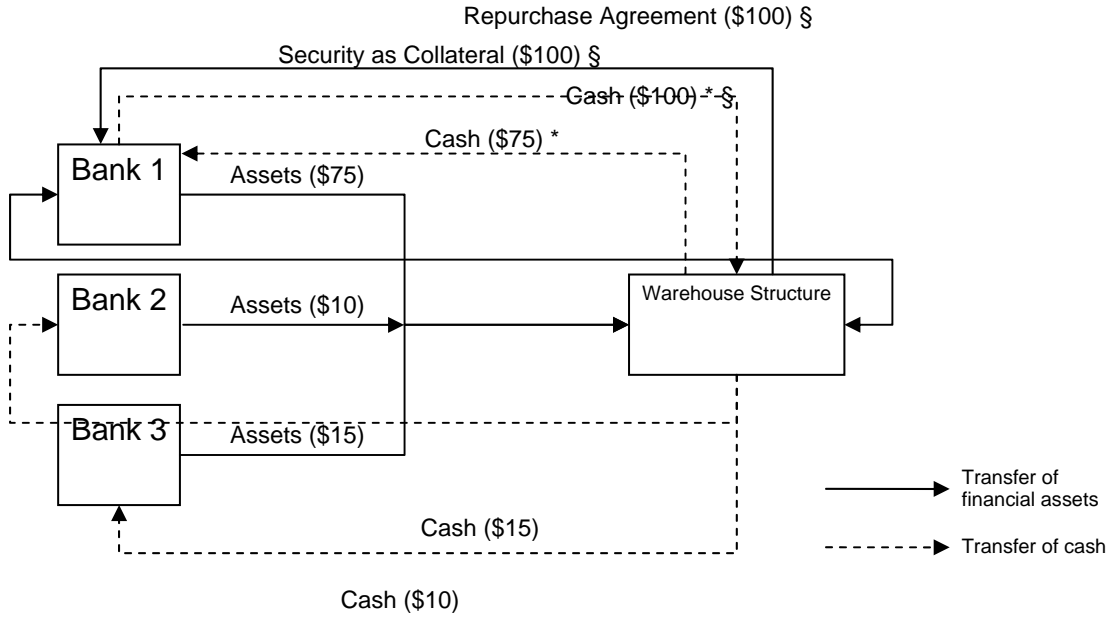
2. Settlement of Repurchase Agreement



† The assets transferred are the assets that were originally pledged as collateral.

Loan Warehousing Transaction

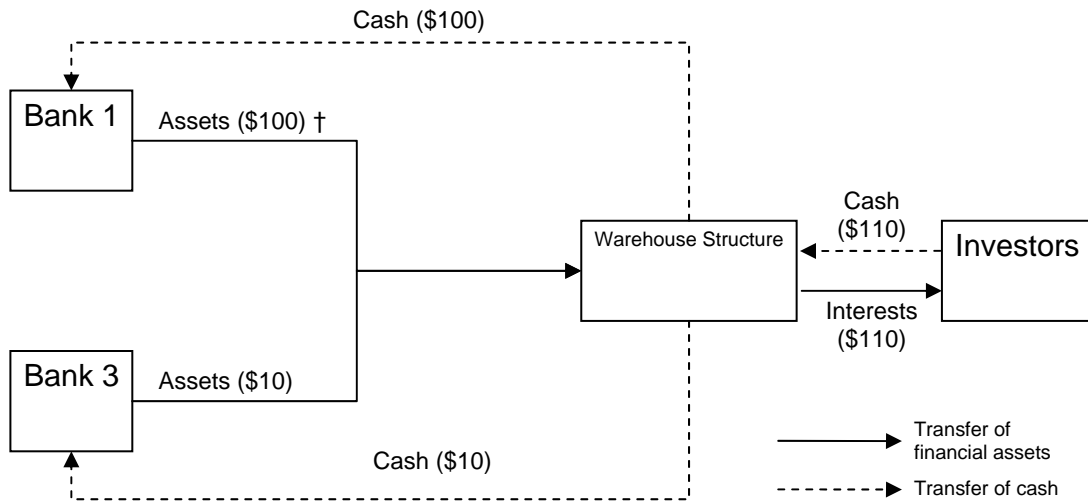
1. Initial Transfers and Repurchase Financing



§ Repurchase Financing—Conduit enters into repurchase financing with Bank 1 and transfers all of the assets (\$100) as collateral in exchange for cash. Some time may elapse between the initial transfers and the repurchase financing or they may occur simultaneously.

* May be settled with one net transfer of \$25 or with two gross transfers (one from Bank 1 to the Conduit for \$100 for the repurchase and the other from the Conduit to Bank 1 for \$75 for the assets). There would likely be a fee or interest charged for the repurchase. This charge is excluded from the example for simplicity.

2. Additional Transfer and Settlement of Repurchase



† The assets transferred are the assets that were originally pledged as collateral.

Issue 1: How should the transferee and the transferor account for the initial transfer and repurchase financing? When should the transfer and repurchase financing transaction be considered linked and evaluated for accounting purposes as a single transaction?

Approach 1—Link both transactions together in all cases that involve the same or substantially the same financial assets.

Approach 2—Use a rebuttable presumption approach that presumes linkage unless the linkage presumption can be overcome by meeting certain criteria (a variation of Approach 1).

Approach 3—Consider the two transactions unrelated unless there is evidence to the contrary (another variation of Approach 1).

Approach 4—Consider the two transactions separately.

The staff recommends Approach 2.

Issue 2: If the Board decides to issue guidance to address Issue 1, what form should that guidance take?

The staff believes that guidance could be provided in the form of an FASB Staff Position or an amendment to Statement 140, depending on the approach the Board chooses in Issue 1.

Questions for the Board

1. Does the Board agree with the staff recommendation to issue guidance to address Issue 1 using Approach 2?
2. If the Board decides to issue guidance, should this guidance be in the form of an FSP or an amendment to Statement 140?



**Board Meeting Handout
Inventory at Fair Value
March 14, 2007**

PURPOSE OF THIS MEETING

At today's Board meeting, the Board will discuss whether to add a short-term project to its agenda to provide guidance on whether ARB No. 43, *Restatement and Revision of Accounting Research Bulletins*, should be amended to require certain nonfinancial physical assets with readily determinable fair values that are held in trading inventory to be accounted for at fair value.

ISSUES TO ADDRESS

Issue 1: Does the Board wish to add a project to its agenda to consider requiring fair value accounting for traded physical commodity inventory items with readily determinable fair values?

Alternative A—Add a project to the Board's agenda to consider requiring, for all entities, that traded physical commodity inventory items with readily determinable fair values are accounted for at fair value (an amendment of ARB 43).

Alternative B—Add a project to the Board's agenda to consider requiring, for broker-dealers and financial intermediaries only, that traded physical commodity inventory items with readily determinable fair values are accounted for at fair value (an amendment of ARB 43).

Alternative C—Do not add a project to the Board's agenda.

Staff Recommendation

The staff recommends Alternative A. The staff believes that there is a need for a standard that will provide guidance on the measurement of physical commodity inventory and eliminate diversity in practice. In addition, the staff believes that fair value accounting better reflects the economics of these transactions.

Issue 2: Does the Board wish to include traded emission allowances within the scope of this project?

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Staff Recommendation

The staff recommends including traded emissions allowances within the scope of this project. The staff believes that the market for certain traded physical commodities and emissions allowances is fundamentally similar, so these items should be considered together as part of this project.

Issue 3: Does the Board wish to include nonphysical commodity contracts, such as energy contracts, within the scope of this project?

Staff Recommendation

The staff recommends addressing traded physical commodities and emissions allowances *only* since these are the most pervasive practice issues that can be resolved within a short-term project.



Board Meeting Handout

STATEMENT 133 IMPLEMENTATION ISSUE—Whether Embedded Conversion Options Are Indexed to both an Entity’s Own Stock and Currency Exchange Rates

March 14, 2007

PURPOSE

At today’s meeting, the Board will discuss matters related to the Statement 133 Implementation Issue – *Whether Embedded Conversion Options Are Indexed to both an Entity’s Own Stock and Currency Exchange Rates*.

BACKGROUND

The issue centers on whether an equity option embedded in a convertible debt instrument qualifies for the paragraph 11(a) scope exception of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. This exception is granted to contracts issued or held by a reporting entity that are both (a) indexed to that reporting entity’s own stock and (b) classified in stockholders’ equity in its statement of financial position.

There appears to be a diversity in practice as to whether foreign currency risk causes the embedded equity option, when analyzed on a freestanding basis, to no longer be considered indexed to that reporting entity’s own stock.

Issue 1: The debt is denominated in a foreign currency

Is the embedded conversion option in a convertible debt instrument that is denominated in a currency other than the issuer’s functional currency considered *indexed to the issuer’s own stock* for purposes of evaluating whether the embedded conversion option meets the scope exception in paragraph 11(a) of Statement 133?

Staff Response:

This paragraph 11(a) scope exception is not met. The consideration received by the issuer upon conversion (that is, the exercise price of the conversion option) is the debt host that is reacquired. The fair value of the debt host is impacted by currency exchange rates; therefore, the embedded conversion option is dual-indexed to both the issuer’s own stock and currency exchange rates.

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Issue 2: The debt is denominated in the functional currency but the shares issuable upon conversion are traded only on foreign exchange(s)

Is the embedded conversion option in a convertible debt instrument that is denominated in the issuer's functional currency considered *indexed to the issuer's own stock* for purposes of evaluating whether the embedded conversion option meets the scope exception in paragraph 11(a) of Statement 133 if the shares issuable upon conversion are traded only on exchanges (or other established marketplaces) for which trades are not denominated in the issuer's functional currency?

Staff Response:

The paragraph 11(a) scope exception is met. For purposes of applying the scope exception in paragraph 11(a) of Statement 133, an option contract (including an embedded conversion option) with a fixed exercise price that would require an entity to issue a fixed number of its own equity shares upon exercise should not be considered indexed to an underlying other than the issuer's own stock solely because those equity shares are transacted between investors in a currency other than the issuer's functional currency.

QUESTION FOR THE BOARD:

Does the Board agree with the staff on the above issues and direct the staff to issue a draft implementation issue?