



Board Meeting Handout
Convertible Debt Instruments that May Be Settled in Cash upon Conversion
(Including Partial Cash Settlement)
July 25, 2007

PURPOSE OF THIS MEETING

The purpose of this meeting is for the Board to discuss (1) issues regarding the accounting for convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) and (2) possible alternatives to address those issues through the issuance of an FASB Staff Position (FSP).

BACKGROUND

Paragraph 12 of Opinion 14 specifies that no portion of the proceeds from the issuance of the types of convertible debt instruments described in paragraph 3 of that Opinion should be accounted for as attributable to the conversion feature. However, paragraph 18 of that Opinion specifies that it is not practicable to discuss all possible types of debt with conversion features and that instruments not explicitly discussed therein should be accounted for in accordance with the substance of the transaction.

Opinion 14 does not contain any discussion of debt instruments with embedded conversion options that are indexed to the issuer's own stock but provide the issuer with the ability to settle its obligation to the holder (or some portion thereof) in cash upon conversion. However, pursuant to the Task Force's consensus on Issue 90-19, as revised, convertible debt instruments that, upon conversion, would require cash settlement of the debt's accreted value and permit the issuer to settle the conversion spread in either cash or shares (referred to as "Instrument C" in Issue 90-19) are accounted for pursuant to the guidance in paragraph 12 of Opinion 14, provided that the embedded conversion option

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would meet the conditions for equity classification in Issue 00-19 if it were a freestanding instrument. Additionally, the consensus on Issue 90-19, as revised, specifies that the if-converted method should not be used to determine the earnings per share treatment of Instrument C.

The revised consensus in Issue 90-19 requires that Instrument C be treated as convertible debt for accounting purposes but prescribes a diluted earnings per share methodology that is consistent with debt issued with detachable warrants. As a result, Instrument C generally has less of a dilutive impact in the calculation of diluted earnings per share than a convertible debt instrument that requires application of the if-converted method.

Entities often use proceeds from the issuance of Instrument C bonds to fund share buyback programs. Such financing strategies typically result in an immediate earnings per share improvement because outstanding common shares are reduced, there is no immediate dilutive earnings per share effect from the Instrument C bonds (which are typically issued out-of-the-money), and interest costs for financial reporting are often two percent or less. In addition, entities often use proceeds from the issuance of Instrument C bonds to purchase call options on their own stock that economically offset the potential dilution from the conversion option (or enter into a combination of purchased and written options that synthetically increases the conversion price). Such equity derivative contracts provide issuers of Instrument C bonds with the economics of issuing nonconvertible debt (or convertible debt with a higher strike price), while (a) reporting interest expense at a lower convertible debt rate, (b) receiving income tax deductions based on a higher nonconvertible debt interest rate (through tax integration of the Instrument C bonds and the purchased call options), and (c) reporting no earnings per share dilution until the conversion option goes in-the-money in a future period.

Prior to the revision of Issue 90-19 at the January 23–24, 2002 EITF meeting, convertible debt instruments that required or permitted cash settlement upon conversion were relatively uncommon. After observing the proliferation of such instruments in the marketplace over the past several years since the consensus in Issue 90-19 was revised, questions have been raised as to whether the accounting guidance in Issue 90-19, as revised, appropriately reflects the economics of those instruments.

Issue 07-2 was added to the EITF's agenda in January 2007 to reconsider the appropriateness of the guidance in Issue 90-19 in light of these subsequent developments. The Task Force discussed Issue 07-2 at the March 15, 2007 and June 14, 2007 EITF meetings. The Task Force, however, was unable to reach a conclusion, and the Task Force agreed to discontinue discussion of the Issue and to remove it from the EITF's agenda. The FASB Board members present indicated that they would consider adding a project to the Board's agenda to address the issue, which is the subject of the discussion at this meeting.

QUESTION FOR THE BOARD

- 1. Does the Board want to add a project to its agenda with the objective of issuing an FSP to address the accounting for convertible debt instruments that require or permit cash settlement upon conversion (including partial cash settlement)?***

ACCOUNTING ALTERNATIVES

If the Board decides to add a project to its agenda to reconsider the current accounting treatment of convertible debt instruments that require or permit cash settlement upon conversion (including partial cash settlement), the following are potential alternatives that the Board will be asked to discuss:

Alternative 1: For convertible debt instruments that may be settled entirely or partially in cash upon conversion, an entity should separately account for the liability and equity components of the instrument in a manner that reflects the issuer's economic interest cost.

Alternative 2: An entity should account for convertible debt instruments that may be settled entirely or partially in cash upon conversion at fair value, with changes in fair value reported in earnings.

Alternative 3: An entity should account for convertible debt instruments that may be settled entirely or partially in cash upon conversion at the greater of (a) their current conversion value and (b) their accreted value, with changes in the carrying amount reported in earnings. This alternative is consistent with the accounting for indexed debt obligations when the embedded indexation feature does not require bifurcation under Statement 133. Additionally, this was the Task Force's original consensus on accounting for Instrument C in Issue 90-19 before that consensus was revised at the January 23-24, 2002 EITF meeting.

Interaction with Statement 133 and Opinion 14

An FSP on accounting for convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) would not amend the guidance in Statement 133, so it would not affect the accounting for such instruments when the conversion option is separately accounted for as a derivative.

Additionally, an FSP would not amend Opinion 14. Rather, it would interpret Opinion 14 by clarifying (a) that the guidance in paragraph 12 of that Opinion does not apply to convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) and (b) the appropriate accounting

treatment for such instruments pursuant to the guidance in paragraph 18 of Opinion 14.

Earnings Per Share

If the Board decides to address the accounting treatment of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement), an FSP would not affect the existing guidance in Statement 128 or its related interpretations on calculating basic and diluted earnings per share. However, an entity's earnings per share would differ under any of the alternatives set forth above because the change in accounting treatment would affect net income.

QUESTION FOR THE BOARD

- 2. Should convertible debt instruments that entitle the issuer to satisfy the if-converted value (or any portion thereof) in cash upon conversion be accounted for (a) in a manner that reflects the issuer's economic borrowing costs (Alternative 1), (b) at fair value, with changes in fair value reported in earnings (Alternative 2), or (c) at the greater of (1) their accreted value and (2) their current conversion value, with changes in the carrying amount reported in earnings (Alternative 3)?***

TRANSITION AND EFFECTIVE DATE

The Board will be asked to discuss whether an FSP providing guidance based on the Board's response to Question 2 should be effective for financial statements issued for fiscal years beginning after December 15, 2007, and interim periods within those fiscal years. Early adoption would not be permitted. The Board will also be asked to discuss whether an FSP should be applied retrospectively to all periods presented pursuant to the guidance in Statement 154.

QUESTION FOR THE BOARD

- 3. Does the Board believe that the guidance in an FSP should be effective for financial statements issued for fiscal years beginning after December 15, 2007, and interim periods within those fiscal years? Earlier application would not be permitted. Additionally, does the Board believe that the guidance in an FSP should be applied retrospectively to all periods presented?*

COMMENT PERIOD OF EXPOSURE DRAFT

The Board will be asked to discuss whether it wants to proceed with a ballot draft of a proposed FSP that would be exposed for a 45-day comment period.

QUESTION FOR THE BOARD

- 4. Does the Board want to proceed with a ballot draft of a proposed FSP that would have a comment period of 45 days?*



Board Meeting Handout

Short-Term Convergence—Earnings per Share

July 25, 2007

The purpose of this handout is to identify and address the issues that have arisen in drafting the proposed Statements on the amendments to FASB Statement No. 128, *Earnings per Share*, and IAS 33, *Earnings per Share*. The staff plans to address: (a) instruments with the same accounting and the same EPS amount, but achieved through different methods of computing EPS, (b) instruments with different underlying accounting and therefore different methods of computing diluted EPS that achieve the same EPS denominator, (c) instruments in which an embedded option is accounted for separately as a liability and measured at fair value through earnings for the reporting period, (d) allocation of dividends in the computation of diluted EPS under the two-class method, (e) effective date, and (f) comment period.

Instruments with the Same Underlying Accounting, Same EPS, but Achieved Through Different Methods of Computing EPS

Basic EPS

Forward purchase contracts that require gross physical settlement are accounted for under both FASB Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*, and IAS 32, *Financial Instruments: Presentation*, as a liability with an offset to equity at contract inception. Effectively, both standards require the issuance of a physically settled forward purchase contract to be accounted for in a manner akin to a treasury stock purchase using borrowed funds (that is, as if the future repurchase of shares had already occurred).

In order to be consistent with the required accounting U.S. GAAP requires the denominator to be adjusted to exclude the shares (subject to repurchase) from the basic and diluted EPS calculations. However, U.S. GAAP goes on to say there is a numerator

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adjustment in the computation of EPS. The staff believes the numerator adjustment in U.S. GAAP is intended to capture the claim that current shareholders (whose stock is subject to repurchase) have on current period earnings prior to actually being repurchased. The staff observes in circumstances where the forward contract counterparty agrees to remit dividend payments back to the issuer for the number of shares underlying the forward contract, there would be no numerator adjustment because the shares subject to repurchase would have no claim on current period earnings. In contrast, IFRS require no adjustment to the numerator or denominator in the computation of basic EPS for a gross physically settled forward purchase contract.

Diluted EPS

U.S. GAAP does not require any further adjustments to the numerator or denominator in the computation of diluted EPS, whereas IAS 33 requires the use of the reverse treasury stock method (par. 63 of IAS 33) in the computation of diluted EPS for gross physically settled forward purchase contracts. However, in applying the tentative decisions at the March 2007 FASB and IASB Board meetings on the treasury stock method to the reverse treasury stock method, the staff believes the modified reverse treasury stock method will always return an antidilutive result.

Staff Analysis

The staff believes there should be no difference in the basic or diluted EPS amounts between IFRS and U.S. GAAP with respect to physically settled forward purchase contracts except in situations in which the forward contract counterparty agrees to remit dividend payments back to the issuer. That is because in situations other than those in which the forward contract counterparty agrees to remit dividends back to the issuer (a) the numerator and denominator adjustment required by U.S. GAAP should result in the same basic and diluted EPS amount as if no adjustments had been made and (b) the application of paragraph 63 of IAS 33 (modified for the Boards' tentative decisions on the treasury stock method) will always return an antidilutive result.

Issue 1: Does the Board believe that in order to achieve convergence that no changes should be made to the EPS guidance in Statement 150?

Instruments with Different Underlying Accounting and Therefore Different Methods of Computing Diluted EPS that Achieve the Same EPS Denominator

Diluted EPS

Instruments that are accounted for as (a) forward purchase contracts that provide the option of gross physical or net share or net cash settlement, (b) written put options requiring gross physical settlement, and (c) written put options that provide the option of gross physical or net share or net cash settlement will be recognized as a derivative and measured at fair value with changes reported in earnings under U.S. GAAP. However, under IFRS, those instruments (a)-(c) will be accounted for as a liability with an offset to equity (the same way U.S. GAAP accounts for gross physically settled forward purchase contracts). Pursuant to the tentative decisions at the March 2007 Board meetings, U.S. GAAP will not require an adjustment to the denominator for the above instruments because the changes in fair value are a better reflection of the dilution to current shareholders, whereas IFRS will require the use of the reverse treasury stock method (modified for the Boards' tentative decisions on the treasury stock method).

Staff Analysis

The staff notes that as a result of (1) the use of the fair value method and (2) the application of modified reverse treasury stock method neither U.S. GAAP nor IFRS will require the above instruments (a) – (c) to be included in the computation of diluted EPS. However, the staff also notes that the fair value method will require fair value adjustments to be included in net income under U.S. GAAP that may be different than the accretion of the discount required under IFRS. This difference in net income will result in a difference in basic and diluted EPS simply because the numerator control number (net income) is different. The staff believes that because the denominator in both EPS computations are the same, the standards could be viewed as converged.

Issue 2: Does the Board believe it is more important from a convergence perspective to arrive at the same EPS denominator (that is, weighted average number of shares) or to compute basic and diluted EPS in the same manner under both U.S. GAAP and IFRS?

Instruments in Which the Embedded Option is Fair Valued

In the creation of the “fair value method”, the staff considered whether instruments that are, in part, measured at fair value should be subject to the fair value method exclusion. That is, should an instrument that has an embedded derivative with a share settlement alternative in which the embedded derivative is accounted for separately as a liability and measured at fair value through earnings for the reporting period be excluded from the computation of diluted EPS. At least initially, the staff concluded that answer should be “no” and that the fair value method should only apply if the compound instrument was measured at fair value in its entirety for the reporting period. The staff reasoned that because U.S. GAAP and IFRS had different requirements on whether an embedded derivative should be separately accounted for and measured at fair value, the fair value method should only apply to instruments (including compound instruments) that are classified as a liability and measured at fair value in their entirety. The staff now acknowledges the lack of comparability that will occur for instruments that are measured at fair value in their entirety among and between U.S. GAAP and IFRS due to an entity’s ability to elect the fair value option on an instrument by instrument basis.

Staff Analysis

The staff believes the proposed fair value method should be expanded to include embedded derivative instruments that contain a share settlement alternative that are separately classified as liabilities and measured at fair value through earnings for the reporting period. The staff notes that this will further expand the use of the fair value method, which is believed to simplify the computation of diluted EPS.

Issue 3: Does the Board believe the “fair value method” should be expanded to include compound instruments for which the embedded derivative is accounted for separately as a liability and measured at fair value through earnings for the reporting period?

Allocation of Actual Dividends in the Computation of Diluted EPS under the Two-Class Method

In drafting the amendments to Statement 128 and IAS 33, a question arose on the computation of diluted EPS under the two-class method. Specifically, does the computation require a distribution of hypothetical dividends (or interest on participating income bonds) to all outstanding common stock and potential common stock (for example, shares issued from exercise of options) or does it require only distribution of actual dividends (or interest on participating income bonds) to all outstanding common stock at the date of distribution.

The staff has interpreted the words in the current standards to require that the computation of diluted EPS under the two-class method only reduce income from continuing operations for actual dividends (or interest on participating income bonds) distributed to outstanding common stock. As a result, the staff has drafted the proposed amendments to Statement 128 and IAS 33 (including the proposed examples) requiring that the computation of diluted EPS under the two-class method only reduce income from continuing operations by the actual amount of dividends distributed. However, the staff has drafted an issue to be included in the notice to recipients of the proposed Statements to solicit feedback on the issue.

Issue 4: Does the Board believe the computation of diluted EPS under the two-class method should continue to use the actual distributions to outstanding common stock?

Effective Date

The staff believes it is important to align the effective dates for the amendments to Statement 128 and to IAS 33. As a result, the staff recommends the amendments to Statement 128 be effective for annual periods beginning after December 15, 2008. In addition, the staff believes early adoption should be permitted.

Issue 5: Does the Board agree with the proposed effective date?

Comment Period

The staff recommends a 90-day comment period for the proposed Statements.

Issue 6: Does the Board agree with the proposed comment period?



Board Meeting Handout

Insurance Risk Transfer

July 25, 2007

OBJECTIVE OF THE MEETING

1. At the July 25, 2007 Board meeting, the Board will discuss the application of the insurance risk transfer conditions of FASB Statement No. 113, *Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts*, to insurance contracts between non-insurance enterprise policyholders and insurers. If a decision is reached on this matter, the staff will ask the Board to (a) reconfirm its previous discussions regarding enhanced disclosures discussed at the December 6, 2006 Board meeting and (b) allow the staff to proceed to drafting an exposure document. Finally, the Board will discuss transition, effective date, and exposure period for an exposure document incorporating into FASB Statement No. 5, *Accounting for Contingencies*, and Statement 113, amending changes, enhanced disclosure requirements, and the insurance risk transfer guidance.

APPLICATION OF RISK TRANSFER CRITERIA TO INSURANCE CONTRACTS

Background on Statement 113

2. Statement 113 provides guidance as to whether risk has been transferred by a reinsurance contract, but does not address risk transferred by an insurance contract. However, the Exposure Draft, *Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts*, for Statement 113 included a proposed amendment to paragraph 44 of Statement 5 that would have extended the insurance risk transfer conditions in Statement 113 to insurance contracts. The amendment was ultimately removed because the Board's intention was to focus solely on reinsurance contracts and not significantly change the accounting for primary insurance transactions in the narrow-scope project.

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Invitation to Comment

3. In the Invitation to Comment, *Bifurcation of Insurance and Reinsurance Contracts for Financial Reporting*, the staff addressed the issue again by asking constituents to comment on whether the risk transfer conditions in Statement 113 could be applied by non-insurance enterprise policyholders and insurers. The majority of respondents that answered this question agreed that the insurance risk transfer conditions should be the same for the non-insurance enterprise policyholder, insurer, and reinsurer. However, respondents also had the following concerns:

- a. Non-insurance enterprise policyholders lack the necessary data and expertise to perform the cash flow analysis required by paragraph 9(b) of Statement 113
- b. Since only a few single policies are held by most non-insurance enterprise policyholders, the limited number of policies would not provide a credible basis to evaluate insurance risk transfer using the conditions in Statement 113 (specifically the quantitative analysis described in paragraphs 9b and 10 of Statement 113)
- c. Applying the conditions in Statement 113 to insurance contracts could result in situations where insurance contracts that clearly transfer insurance risk fail those risk transfer conditions (for example, an insurance contract covering fire would have a remote possibility of a significant loss and therefore may not meet the “reasonable possibility of a significant loss” insurance risk transfer condition).

Question for Board

4. Should the same risk transfer conditions in Statement 113 for reinsurance contracts be applied to insurance contracts (that is, insurance contracts between non-insurance enterprise policyholders and insurance enterprises)?

AMENDMENTS TO STATEMENT 113 AND STATEMENT 5

Qualitative Screen within Statement 113

5. The second sentence of paragraph 11 of Statement 113 states that “If, based on this comparison, the reinsurer is not exposed to the reasonable possibility of significant loss, the ceding enterprise shall be considered indemnified against loss or liability relating to insurance

risk only if substantially all of the insurance risk relating to the reinsured portions of the underlying insurance contracts has been assumed by the reinsurer.” [footnote omitted]. This sentence provides an exception for reinsurance contracts that fail the quantitative test prescribed by paragraph 9b of Statement 113. The staff has proposed that the qualitative notion within this sentence could be used as a qualitative screen for both insurance and reinsurance contracts. This qualitative screen could be applied prior to the quantitative test required by paragraph 9b of Statement 113 and would allow those insurance and reinsurance contracts that transfer all but a trivial amount of insurance risk to pass risk transfer (thus avoiding the quantitative test imposed by paragraph 9b of Statement 113). If an insurance or reinsurance contract fails the qualitative screen, a quantitative test would be applied. This quantitative test would be used to determine if it is reasonably possible that a significant loss may be realized.

Question for Board

6. Does the Board agree with the staff’s recommendation to first apply a qualitative screen that would allow those insurance and reinsurance contracts that transfer all but a trivial amount of insurance risk to pass risk transfer? If so, does the Board agree with the staff’s recommendation to apply a quantitative test pursuant to paragraph 9b of Statement 113, if the qualitative screen is failed, that would be used to determine if it is reasonably possible that a significant loss may be realized?

Amendments to Statement 5

7. Based on feedback from the Education Session held on July 18, 2007, the staff recommends that the amended insurance risk transfer conditions of Statement 113 be reproduced in Statement 5. The goal of placing a reproduction of the amended Statement 113 insurance risk transfer conditions (modified for insurance contracts) in Statement 5 is to better communicate these conditions to non-insurance enterprise policyholders.

Question for Board

8. Does the Board agree with the staff’s approach to amend both Statements 5 and 113?

Proposed Disclosures

9. At the December 6, 2006 Board meeting, the Board was presented with draft disclosures for consideration. The objective of these disclosures was to provide a better understanding of

how and why an enterprise uses insurance and reinsurance, how these insurance contracts are accounted for, and transparency into the overall impact of these insurance contracts on an enterprise's financial position, results of operations, and cash flows.

Question for Board

10. Does the Board agree with the proposed enhanced disclosures?

TRANSITION, EFFECTIVE DATE, AND EXPOSURE PERIOD

Transition

11. The Board will discuss potential transition guidance for the exposure document.

Question for Board

12. What transition guidance should be applied to this exposure document?

Effective Date

13. The staff recommends an effective date for financial statements issued for fiscal years beginning after December 15, 2008 consistent with the staff's estimated timeline for this project.

Question for Board

14. Does the Board agree with the staff's recommendation for an effective date for financial statements issued for fiscal years beginning after December 15, 2008?

15. Does the Board agree to allow the staff to proceed with drafting an exposure document? If so, does the Board agree with the staff's recommendation for the exposure period (that is, 90 days or 120 days depending on the release date of the exposure document in the fourth quarter)?



Financial Accounting Standards Board

**Board Meeting Handout
Derivatives Disclosures
July 25, 2007**

At today's meeting, the Board will begin redeliberations of issues raised by respondents to the Exposure Draft of the proposed Statement, *Disclosures about Derivative Instruments and Hedging Activities* (ED). Specifically, the Board will discuss the scope of the project.

BACKGROUND INFORMATION

The Exposure Draft presented a scope that applies to all derivative instruments and related hedged items accounted for under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. In the deliberations leading up to the Exposure Draft, the Board considered a broader scope encompassing all financial instruments but decided to limit the scope of the project to derivative instruments accounted for under Statement 133 and all hedged items. Certain Board members emphasized that disclosures about derivative instruments and related hedged items may be misleading to users because they only represent part of a bigger risk management strategy that encompasses all financial instruments. Other Board members believed the project scope should be limited to derivative instruments and related hedged items in order to provide information that users have requested in both a timely and cost effective manner. The Board decided to limit the project scope and agreed to consider a more comprehensive project on disclosures relating to all financial instruments at a future date.

Consistent with the limited scope decision, at the July 19, 2006 Board meeting, the Board decided that the objectives of the disclosures are to provide an enhanced understanding of:

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- a. How and why an entity uses derivative instruments
- b. How derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations
- c. How derivative instruments affect an entity's financial position, results of operations, and cash flows.

At that meeting, the staff also presented the Board with a fourth disclosure objective, that the disclosures should provide an understanding of an entity's risk exposures and the strategy for mitigating those risks. The Board rejected that objective because it focuses more on an entity's larger risk management strategies that encompass all financial instruments, which is beyond the scope that the Board decided on.

CONSTITUENT CONCERNS

The majority of respondents to the ED agreed with the Board's decision to limit the scope of the project. While many of those respondents acknowledged that disclosures about all financial instruments are important, they stated that the Board should consider those disclosures in a separate project.

Other respondents did not agree with the Board's decision to limit the scope of the project. They stated that disclosures about derivatives and related hedged items would provide misleading information to users about an entity's overall risk management activities and profile, especially when considered in the context of financial institutions that engage in heavy derivative use and have elaborate and dynamic risk management strategies that entail entering into derivatives, in addition to many other types of financial instruments.

Some of those respondents whom did not agree with a limited scope, as well as other respondents, suggested requiring all (or some) of the permitted disclosures in paragraphs 44 and 45 of Statement 133 or other disclosures about an entity's overall risk management activities and profile in order to better inform users.

USER NEEDS

Throughout the project, users have provided input on the project scope and objectives. In general, the criticisms from users focused on the difficulty under the current disclosure framework in determining the effect that derivative instruments have on an entity's financial statements.

Consistent with other feedback received, users expressed general support for the project objectives and scope. They agreed that a broader scope would provide the most comprehensive information, but were satisfied with a limited scope in the near-term and supported pursuing a broader project objective in the long-term.

STAFF ALTERNATIVES TO SCOPE

In order to address constituent concerns about the project scope and objectives while satisfying user needs, the staff developed three alternatives for the Board to consider:

- a. Alternative 1 – Expand the project scope to include all financial instruments and expand the objectives to include information on an entity's overall risk management activities and profile.
- b. Alternative 2 – Retain the project scope as proposed in the ED and add an objective to provide an enhanced understanding of how derivatives are used in the context of an entity's risk management profile.
- c. Alternative 3 – Retain the project scope and objectives as proposed in the ED.

STAFF RECOMMENDATION

The staff recommends that the scope and objectives of the project should be based on Alternative 3. The staff believes Alternative 3 would provide information in a timely manner about derivatives that is desired by users of financial statements. While

information about all financial instruments and an entity's overall risk management activities and profile is important, the staff believes the Board should consider those disclosures in a separate project and not delay the issuance of a final standard on derivative disclosures.

QUESTIONS FOR THE BOARD

1. Which alternative does the Board wish to pursue with respect to the scope of the project?