

MINUTES



**To:** Board Members  
**From:** Fair Value Option Team—McGrath  
(ext. 443)  
**Subject:** Minutes of the January 24, 2007 Board Meeting: Fair Value Option  
**Date:** January 26, 2007  
**cc:** Bielstein, Smith, MacDonald, Leisenring, Fair Value Option Team, Fair Value Measurements Team, Gabriele, Polley, Swift, Sutay, FASB Intranet

*The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue a final Statement or Interpretation.*

Topic: Fair Value Option Phase 1 Redeliberations

Basis for Discussion: Board Memorandum No. 33, dated January 20, 2007

Length of Discussion: 10:45 a.m. to 11:10 a.m.

Attendance:

Board members present: Herz, Batavick, Crooch, Linsmeier, Seidman, Trott, and Young

Board member absent: None

Staff in charge of topic: Barker and Wilkins

Other staff at Board table: L. Smith, Lott, C. Smith, and McGrath

Outside participants: None

### **Summary of Decisions Reached:**

The Board discussed certain disclosure items and a scope exception for “in-substance real estate.” The Board decided:

1. To delete the Level 3 disclosure example and the “Statement 107 Summary Table” from a draft of Appendix C of the fair value option (FVO) Statement.
2. To require an entity to annually disclose the methods and significant assumptions used to estimate fair value for instruments for which the FVO has been elected and that are not in the scope of FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, which has a similar requirement.
3. Not to add a scope exception for an investment whose transfer is considered in substance the sale of real estate under FASB Statement No. 66, *Accounting for Sales of Real Estate*, or EITF Issue No. 98-8, “Accounting for Transfers of Investments That Are in Substance Real Estate.”

### **Objectives of Meeting:**

The objective of the meeting was for the Board to redeliberate certain issues related to Phase 1 of the FVO project. The objective of the meeting was met.

### **Matters Discussed and Decisions Reached:**

#### **SUGGESTED REVISIONS TO APPENDIX C**

1. Ms. Barker stated that Examples 3 and 4 of Appendix C of the preballot draft of the FVO Statement illustrate selected disclosure requirements of Statements 107 and 157. (Item 3 illustrates

Statement 157's disclosure requirements pertaining to Level 3 measurements. Item 4 illustrates the summary table required annually by Statement 107.) The Board did not amend Statement 157 or Statement 107 during its redeliberations of the FVO Statement, and the illustrations provided in examples 3 and 4 do not integrate disclosures required by the FVO Statement.

2. Ms. Barker stated that the staff recommends deleting Examples 3 and 4 from Appendix C of the FVO Statement. The Board unanimously agreed with the staff's recommendation.

#### **DISCLOSURE OF METHODS AND SIGNIFICANT ASSUMPTIONS USED TO ESTIMATE FAIR VALUE**

3. Ms. Barker stated that during the December 20, 2006 Board meeting, the Board concluded that the existing disclosures in Statements 157 and 107 about valuation techniques and significant assumptions used to estimate fair value are sufficient and no additional related disclosures should be required by the FVO Statement. (Statement 157 requires annual disclosure about valuation techniques for fair value estimates. Statement 107 requires annual disclosure of methods and significant assumptions used to estimate fair value.) She added that during that meeting, several Board members noted the difference in scope between Statement 107 and the FVO Statement.
4. Ms. Barker stated that the staff recommends adding a disclosure requirement to the FVO Statement to address the disclosure gap created due to differences in scope between Statement 107 and the FVO Statement. The requirement would state that the disclosure of methods and significant assumptions is already required by Statement 107 and is included in this Statement for instruments for which the

FVO has been elected and that are not in the scope of Statement 107 (for example, insurance contracts eligible for the FVO). The Board unanimously agreed with the staff's recommendation.

## **TREATMENT OF AN INVESTMENT CONSIDERED IN-SUBSTANCE REAL ESTATE**

5. Mr. Wilkins stated that paragraph 101 of Statement 66 and EITF 98-8 characterize an ownership interest in an entity with substantial real estate as being "in-substance real estate", such that sales of such ownership interests are governed by the revenue recognition requirements of Statement 66 rather than by FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. He stated that this raises two issues:
  - a. Whether an investment whose transfer is in substance the sale of real estate is a financial asset
  - b. Whether a scope exception should be created in the FVO Statement for an investment whose transfer is in substance the sale of real estate, effectively deferring the issue to Phase 2 of the FVO project.
6. Mr. Wilkins stated that the staff believes that an investment whose transfer is in substance the sale of real estate is a financial asset because that investment meets the definition of a financial asset. The staff also recommends that the proposed scope exception not be included in the FVO Statement for Phase 1.
7. Mr. Linsmeier stated that he was uncertain about whether a transfer of ownership interest that is in substance a sale of real estate meets the definition of financial asset, as written in paragraph 4 of Statement 140.

8. Ms. Seidman stated that she preferred to exclude in-substance real estate from the scope of the FVO Statement in order to avoid creating a conflict with Statement 66. Mr. Batavick agreed, but noted that he was concerned about the difficulty of assessing when an investment would be considered “in-substance” real estate. Ms. Seidman added that she was concerned about allowing entities to elect the FVO for in-substance real estate without dealing with the fact that revenue recognition for real estate is quite different from revenue recognition for other transactions.
9. Mr. Trott agreed with the staff recommendation because he believed that adding a scope exception for in-substance real estate would introduce unnecessary complexity.
10. The Board decided by a vote of four to three (DMY, LFS, and GJB) not to add a scope exception for an investment whose transfer is considered in substance the sale of real estate under Statement 66 or Issue 98-8.

**Follow-up Items:**

11. None

**General Announcements:**

12. None