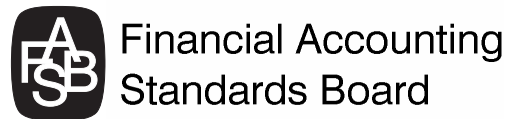


MINUTES



To: Board Members

From: Fair Value Option Team
(Mike Kramer, ext. 273)

Subject: Minutes of the March 30, 2005 Board Meeting **Date:** April 4, 2005

cc: Bielstein, L. Smith, Golden, Petrone, Leisenring, Project Team, E. Smith, Belcher, Thompson, Gabriele, Sutay, Getz, Polley, 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.

Topics: Fair Value Option: Whether to Impose Eligibility Criteria and Specify Scope Exceptions

Basis for Discussion: Board memorandum dated March 18, 2005.

Length of Discussion: 10:35 a.m. to 11:15 a.m.

Attendance:

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

IASB Board/Staff present: Leisenring

Board members absent: None

Staff in charge of topics: Wilkins

Other Staff at Board table: L. Smith, Gerard, Laurenzano, and Kramer

Outside Participants: None

Summary of Decisions Reached:

The Board decided that no eligibility criteria should be imposed on the election of the fair value option. It was agreed that broad availability of the fair value option is more consistent with the fundamental objectives of the project.

However, in considering whether to establish any scope exceptions, the Board decided that the fair value option cannot be elected for the following financial assets and financial liabilities:

1. An investment (principally an investment in a subsidiary) that would otherwise be consolidated
2. Employers' and plans' financial obligations for pension benefits, other postretirement benefits (including health care and life insurance benefits), postemployment benefits, employee stock option and stock purchase plans and other forms of deferred compensation arrangements as defined in FASB Statements No. 35, *Accounting and Reporting by Defined Benefit Pension Plans*, No. 87, *Employers' Accounting for Pensions*, No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, No. 112, *Employers' Accounting for Postemployment Benefits*, No. 123 (revised 2004), *Share-Based Payment*, No. 43, *Accounting for Compensated Absences*, and No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, and APB Opinion No.12, *Omnibus Opinion—1967*.
3. Financial liabilities recognized under lease contracts as defined in FASB Statement No. 13, *Accounting for Leases*. (This does not include a contingent obligation arising out of a cancelled lease and a guarantee of a third-party lease obligation.)

In addition, the Board directed the staff to use a Notice to Recipients in the project's Exposure Draft to solicit feedback from respondents regarding additional scope exceptions, which the Board considered and rejected at the meeting.

Objective of the Meeting:

The objective of the meeting was to decide whether to impose qualifying criteria or specify scope exceptions for the Fair Value Option project. The objective of this meeting was met.

Matters Discussed and Decisions Reached:

1. Mr. Wilkins asked the Board if they are interested in including eligibility criteria that would be preconditions for an entity to elect to apply the fair value option to specific financial assets and financial liabilities. The Board Meeting Handout contains an explanation of potential eligibility criteria that warranted discussion. The staff recommended that no eligibility criteria be imposed on the election of the fair value option because, in its view, the disadvantages of each of the proposed criteria are more compelling than the advantages.
2. Mr. Batavick does not support including eligibility criteria. One of the main objectives of the project is to facilitate entities using the fair value option. Including eligibility criteria means that the Board is dictating what may qualify for the fair value option. Eligibility criteria would reduce the operationality of the FVO and create a more complex and confusing implementation.
3. Mr. Trott does not support including eligibility criteria. The criteria considered by the IASB are not high hurdles, and will not be very effective in being discriminating. It is uncertain what the IAS criteria will discriminate against, and they will unlikely lead to increased discipline in the use of the FVO.
4. Ms. Seidman does not support including eligibility criteria. However, she would expect that the Board would require robust disclosures of what instruments have been selected for the FVO and why. On a different matter, Ms. Seidman stated that there is the potential for an entity to select an instrument that is not actively traded for the FVO, and there is a difference between the day 1 transaction price and the subsequent fair value measurement under Level 4 of the fair value hierarchy (similar to footnote 3 in EITF Issue No. 02-3, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities"). This project should provide guidance for any

such measurement differences between day 1 and day 2 and any application issues that will arise from instruments that do not have a reliably measurable fair value.

5. Mr. Young is not fully comfortable about allowing the FVO for instruments that do not have a reliably measurable fair value, and would like to include some sort of reliability test for instruments that cannot be valued with direct market inputs.
6. Ms. Seidman explained that the current fair value measurement project will have a new fair value hierarchy and required disclosures that would eliminate many of those concerns.
7. Mr. Herz believes that, in addition to footnote disclosure, it is important to include a display on face of the financial statement which can properly segregate instruments that are carried at fair value and those that are not. It is important to segregate instruments that have different measurement basis. He agrees with the project and does not want to include eligibility criteria, but is concerned about opacity that may be created by including differential measurement.
8. Ms. Schipper stated that she does not prefer allowing treatment alternatives like the FVO. However, if there must be treatment alternatives, it would be best to have unfettered alternatives that are not bogged down by added complexity such as eligibility criteria.
9. The Board agreed, without objection, that no eligibility criteria should be imposed on the election of the fair value option. It was agreed that broad availability of the Fair Value Option is more consistent with the fundamental objectives of the project.
10. Mr. Wilkins then introduced tentative plans to propose ten scope exceptions that would preclude a financial asset or financial liability from being eligible for the FVO. They are patterned principally on the scope exceptions to FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*. He also clarified that the exception regarding investments would otherwise be consolidated was included because the staff would not like to undermine current consolidation guidance and permit an investment to be de-consolidated under the fair value option if it should otherwise be consolidated.

11. Mr. Trott and Ms. Schipper agreed that the project should be kept as expansive as possible. They would like to include the scope exceptions regarding investments that would otherwise be consolidated, financial obligations for pensions and OPEBs, and financial liabilities recognized under lease contracts. All other exceptions should be left out.
12. Ms. Seidman disagrees about the exception for investments being accounted for under the equity method. Allowing fair value for investments accounted for under the equity method would undermine the ongoing work of the AICPA to narrow the scope of the Investment Company Guide.
13. Mr. Crooch agrees with Mr. Trott, and disagrees with Ms. Seidman. He would like to retain only the three exceptions previously mentioned. He also believes that there should certainly be no exception for investments being accounted for under the equity method, because he feels that the equity method is not the best financial reporting and fair value would be more beneficial to constituents.
14. Mr. Batavick agrees with Mr. Trott. A less-limited standard is better to lessen complexities and allow the broadest possible application of the fair value option.
15. Mr. Young believes that the best way to get a reaction about each exception is to leave them in the Exposure Draft. He has concerns about the potential volatility in valuations and the difficulties involved in valuing instruments without reliably measurable fair values. He would not exclude financial obligations for pension benefits and OPEBs. He would prefer to include scope exceptions for investments in equity securities that do not have readily determinable fair values, investments that would otherwise be consolidated, accounting by insurers for insurance and reinsurance contracts, and financial liabilities recognized under lease contracts.
16. Mr. Herz agrees with the scope exclusions preferred by Mr. Trott, but would like more information about the accounting by insurers for insurance and reinsurance contracts. There are concerns about using fair value for these contracts.

17. The Board agreed, without objection, to instruct the staff to include three scope exceptions in the Exposure Draft of the Fair Value Option standard. These exceptions are for the following:

1. An investment (principally an investment in a subsidiary) that would otherwise be consolidated
2. Employers' and plans' financial obligations for pension benefits, other postretirement benefits (including health care and life insurance benefits), postemployment benefits, employee stock option and stock purchase plans and other forms of deferred compensation arrangements as defined in FASB Statements No. 35, *Accounting and Reporting by Defined Benefit Pension Plans*, No. 87, *Employers' Accounting for Pensions*, No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, No. 112, *Employers' Accounting for Postemployment Benefits*, No. 123 (revised 2004), *Share-Based Payment*, No. 43, *Accounting for Compensated Absences*, and No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, and APB Opinion No. 12, *Omnibus Opinion—1967*.
3. Financial liabilities recognized under lease contracts as defined in FASB Statement No. 13, *Accounting for Leases*. (This does not include a contingent obligation arising out of a cancelled lease and a guarantee of a third-party lease obligation.)

18. In addition, the Board directed the staff to use a Notice to Recipients in the project's Exposure Draft to solicit feedback from respondents regarding additional scope exceptions, which the Board considered and rejected at the meeting.

Follow-up Items:

None.

General Announcements:

None.