



To: Board Members

From: Hamilton, ext. 330

Subject: Minutes of the May 19, 2004
Board Meeting

Date: May 25, 2004

cc: Bielstein, L. Smith, Golden, Petrone, Wilkins, Lott, E. Smith,
Laurenzano, Hamilton, Thompson, Gabriele, Sutay, Lapolla, FASB
Intranet

Topics: Potential Agenda Project to Permit Entities a One-
Time Election to Report Financial Instruments at Fair
Value

Basis for Discussion: Board memorandum dated May 7, 2004.

Length of Discussion: 10:15 a.m. to 10:45 a.m.

Attendance:

Board members present: Herz, Batavick, Crooch, Schieneman, Schipper,
Seidman, Trott (by phone)

IASB Board/Staff present: None

Board members absent: None

Staff in charge of topics: Wilkins

Other Staff at Board table: L. Smith, Golden, Lott, E. Smith, Laurenzano,
Hamilton

Outside Participants: None

Summary of Decisions Reached:

The Board added a project to its agenda to consider whether entities should be permitted a one-time election, at the initial recognition of a contract, to report financial instruments, and perhaps certain nonfinancial instruments with characteristics similar to financial instruments, at fair value with the changes in fair value included in earnings. The Board asked the staff to provide additional information for refining the scope of the project.

Objective of the Meeting:

The objective of the meeting was for the Board to decide whether it will add a project to its agenda to permit entities a one-time election at the initial recognition of a contract to report the related financial instruments (or similar nonfinancial instruments) at fair value with the changes in fair value included in earnings.

Matters Discussed and Decisions Reached:

Mr. Wilkins introduced the issue, noting that the staff memorandum contained an analysis of the advantages and disadvantages of undertaking a project to permit entities a one-time election at the initial recognition of a contract to report the related financial instruments (or similar nonfinancial instruments) at fair value with the changes in fair value included in earnings. Mr. Wilkins noted that the memorandum also identified some of the scope and other issues that the Board will need to address if such a project is undertaken. However, the staff emphasized that it was not asking the Board to make any decisions regarding those scope and other issues at this meeting.

The staff stated that if the Board chooses to add this project to its agenda, it would have to determine to what extent the project should converge with international accounting standards. The staff reminded the Board that when it asked the staff to investigate the feasibility of a separate project on optional fair value measurement at its meeting on March 31, 2004, the Board referred to the fair value option in IAS 39, *Financial Instruments: Recognition and Measurement*.

One scope issue that would need to be discussed is to what extent the scope of an FASB project should be affected by the IASB's recently proposed restrictions on the application of IAS 39's fair value option.

The staff stated that the Board also would need to determine whether and to what degree the fair value option should be extended to other recognized assets and liabilities that are similar to financial assets and financial liabilities.

The staff further stated that the Board would need to decide whether the fair value option could be elected for only groups of similar items or for individual items without regard for the measurement attribute used for similar items

Mr. Crooch recommended that the project be added to the Board's agenda.

Mr. Batavick cautioned that the Board's agenda is already crowded and recommended against adding this project to its agenda. He stated that he would first like to see the progress that the Board makes on its projects on mortgage servicing rights and beneficial interests in securitized financial assets before determining whether it is necessary to add this project to the Board's agenda.

Mr. Schieneman recommended that the project be added to the Board's agenda.

Ms. Seidman acknowledged the concerns raised by Mr. Batavick, but also recommended that the project be added to the Board's agenda. She commented that the project would proactively address certain accounting measurement anomalies that have been identified and could be more efficient than dealing with them piecemeal. She suggested that the Board take care not to identify this project as a convergence effort until it carefully considers whether the problems it is trying to solve would be addressed by the proposed changes to IAS 39, as well as whether it is comfortable with the proposed limitation on "verifiable" fair values. For example, one of the mismatches that has been identified in current FASB guidance is the accounting for loan portfolios by mortgage bankers who manage their activities on a fair value basis. The proposed changes to IAS 39 would not allow the fair value option to be applied to loans.

Mr. Trott recommended that the project be added to the Board's agenda. He stated that the project should require disclosures that would minimize the cost to users related to the noncomparability arising from the elective use of fair value.

Ms. Schipper asked the Board to consider what existing problem this project would be solving. She commented that if the intent of the project is to electively fair value hybrid financial instruments, the Board could choose to amend paragraph 16 of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*.

Mr. Herz cautioned that each Board member may have a different belief as to what the scope of this project should be. Mr. Herz stated that while the Board may choose not to converge with IAS 39, the IASB may have guidance in other IASB statements on nonfinancial assets (for example, real estate) that could possibly be included the scope of this project.

Mr. Herz asked the Board if it would like to add a project to its agenda to permit entities a one-time election to report financial instruments at fair value with the changes in fair value included in earnings. The Board approved adding this project to its agenda. [Six Board members agreed; Mr. Batavick did not.]

Follow-up Items:

The objective of the meeting was met.

General Announcements:

None