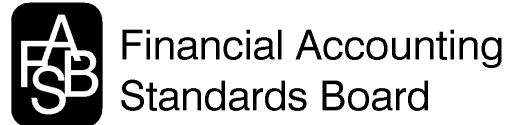


MINUTES



To: Board Members

From: Derivatives Disclosures—Hoyt (ext. 298)

Subject: Minutes of the September 26, 2007
Board Meeting - Derivatives Disclosures: **Date:** October 2, 2007
Redeliberation of Tabular Disclosures

cc: L. Smith, Bielstein, MacDonald, Leisenring, Lott, Polley, Gabriele, Golden, Stoklosa, Bhave, Drum, Hoyt, Wilkins, Sutay, Allen, Carrick, Finden, 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: Derivatives Disclosures: Redeliberation of Tabular Disclosures

Basis for Discussion: Board Memorandum 3 dated September 7, 2007

Length of Discussion: 9:00 a.m. to 10:15 a.m.

Attendance:

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

Board members absent: Smith

Staff in charge of topic: Stoklosa

Other staff at Board table: Golden, Bhave, Hoyt, and Drum

Outside participants: None

Summary of Decisions Reached

The Board continued its redeliberations of the Exposure Draft, *Disclosures about Derivative Instruments and Hedging Activities* (ED). The Board agreed to a revised tabular format for the presentation of information about the fair values of derivatives and gains and losses on derivatives. Information about gains and losses on hedged items in designated and qualifying fair value hedging relationships also should be disclosed.

The Board also directed the staff to further research (a) a proposal to *require*, rather than encourage, the qualitative disclosure of an entity's objectives and strategies for using derivative instruments in the context of an entity's overall risk management profile, as prescribed in paragraph 44 of Statement 133, and (b) a proposal to require disclosure of the cumulative change in fair value of the hedged items in fair value hedging relationships.

Objectives of Meeting

The objectives of this meeting were:

- a. To determine whether the Board agreed that a revised tabular disclosure, as presented by the staff, when combined with the qualitative disclosures required by paragraph 44 of Statement 133, as amended by the ED, would effectively achieve the project's objectives, and
- b. If the Board agreed with the revised tables, to determine whether or not to include information about gains and losses on hedged items in designated and qualifying fair value hedging relationships within the disclosure.

The objectives were met.

Matters Discussed and Decisions Reached

Revised tabular disclosure

1. **Staff Recommendation:** The staff recommended that the revised tabular disclosure be a required disclosure in a final statement. The revised tables would replace the tables required in the ED. The staff believes that the revised tabular disclosures, when combined with the qualitative disclosures required by paragraph 44 of Statement 133, as amended, would effectively achieve the project's objectives.
2. **Board Vote:** The Board agreed to the revised tabular format, as recommended by the staff, for the presentation of information about the fair values of derivatives and gains and losses on derivatives.
3. **Board Comments:** Board members made no specific comments with respect to the revised tables overall other than that the Board agreed to the revised tables. The majority of Board comments were made with respect to hedged item information for fair value hedging relationships in the income statement table (see below).

Disclosure of Hedged Item Information for Statement 133 Fair Value Hedges

4. **Staff Recommendation:** The staff was split on whether disclosure of gains and losses on hedged items in designated and qualifying fair value hedging relationships should be required, and if so, whether it should be in a tabular format. Therefore, the staff did not make a specific recommendation to the Board on this issue.
5. **Board Vote:** A majority of the Board members voted to require disclosure of gains and losses on hedged items in designated and qualifying fair value hedging relationships. Ms. Seidman, Mr. Linsmeier, Mr. Batavick, Mr. Herz, and Mr. Young all voted in favor of requiring the hedged item information. Mr. Smith and Mr. Crooch voted not to require disclosure of the hedged item information for designated and qualifying fair value hedging relationships.
6. **Board Comments:** Ms. Seidman stated that she would prefer that the standard not be prescriptive with respect to the format in which the required information is disclosed. The standard should specify the information to be disclosed but should be flexible with respect to the format for the disclosure, for example, tabular vs. nontabular. She

believes that the standard should require an entity to disclose where in the balance sheet derivatives are being reported, where in the income statement gains and losses related to derivative instruments are being reported, and what is the portion of gain or loss related to hedge ineffectiveness. Ms. Seidman suggested that the quantitative disclosure be presented in such a way that it ties back to the required qualitative disclosures in paragraph 44, as amended, regarding the entity's risk management policy for derivative instruments, including a description of the items or transactions for which risks are being hedged. Ms. Seidman agreed that the final standard should require quantitative disclosure about hedged items in fair value hedges but not be prescriptive as to its format, that is, tabular vs. non-tabular. Mr. Batavick agreed with Ms. Seidman's suggestions.

7. Mr. Linsmeier stated that he supports an income statement table that includes hedged item information for designated fair value hedges for two reasons—(a) it identifies the effect of gains and losses related to the hedged items that are not found in the same line item as the hedging instrument, and (b) it identifies how the effect of gains and losses related to hedged items may be broken down within multiple line items of the income statement. Specifically, Mr. Linsmeier suggested that the illustrative income statement table clarify that disclosure of multiple line items may be necessary if the gains and losses on the derivative and hedged item are included on more than one line item in the income statement.
8. Mr. Crooch stated that he would prefer an income statement table which does **not** include hedged item information for fair value hedges. The required qualitative disclosures in paragraph 44 coupled with the income statement table should be sufficient.
9. Mr. Young stated that he prefers an income statement table which does include the hedged item information for fair value hedges.
10. Mr. Herz spoke in proxy for Mr. Smith. Mr. Smith supports the staff's recommendation with respect to the balance sheet table and supports an income statement table which does not include hedged item information for fair value hedges.

Mr. Herz stated that he prefers an income statement table which does require hedged item information because the location of gains and losses related to hedged item information is significant from a financial analysis point of view, particularly if the effect of changes to the hedged item is found in a different line item than changes in the hedging instrument. He stated that he is willing to explore Ms. Seidman's proposal, however, he is having difficulty envisioning how such information would be disclosed without using a table.

Disclosure of an Entity's Objectives and Strategies for Using Derivatives in the Context of Its Overall Risk Management Profile (the Penultimate Sentence of Paragraph 44 of Statement 133)

11. **Staff Recommendation:** No staff recommendation was made with respect to this topic. This topic was raised by Mr. Young during the meeting.
12. **Board Vote:** N/A.
13. **Board Comments:** Mr. Young stated that, without extending the length of the project, he would like the staff to consider a proposal that would *require*, rather than encourage, the disclosure of an entity's objectives and strategies for using derivatives in the context of its overall risk management profile (as prescribed in the penultimate sentence of paragraph 44 as amended), particularly because the objectives of this project are so narrow and the tabular disclosures afford very little context with respect to how derivatives fit into an entity's overall risk management.
14. The Board directed the staff to consider the implications of requiring, rather than encouraging, such a disclosure.

Disclosure of the Cumulative Change in the Fair Value of the Hedged Items for Statement 133 Fair Value Hedges

15. **Staff Recommendation:** No staff recommendation was made with respect to this topic. This topic was raised by Mr. Young during the meeting.

16. **Board Vote:** N/A.

17. **Board Comments:** Mr. Young stated that users are also concerned about the mixed measurement attributes associated with hedged items in fair value hedges that are reported on the balance sheet. Specifically, users have no way of knowing what portion of the hedged item is actually being hedged and adjusted for changes in fair value.

18. The Board directed the staff to further research a proposal to require disclosure of the cumulative change in fair value of the hedged items in fair value hedging relationships.

Follow-up Items:

None.

General Announcements:

None.