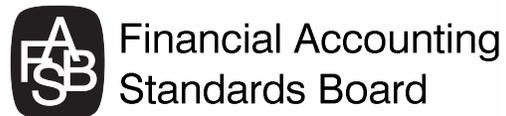


MINUTES



To: Board Members

From: Derivatives Team (Kramer, ext. 273)

Subject: Minutes of the April 13, 2005 Board Meeting (Derivatives) **Date:** April 28, 2005

cc: Bielstein, L. Smith, Golden, Petrone, Leisenring, Wilkins, Lott, E. Smith, Laurenzano, Belcher, Thompson, Gabriele, 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.

Topics: Potential Statement 133 Implementation Issues No. B38 and B39

Basis for Discussion: Board memorandums dated March 30, 2005 and April 12, 2005.

Length of Discussion: 11:00 a.m. to 11:30 p.m.

Attendance:

Board members present: Batavick, Crooch (Phone), Schipper, Seidman, Trott, and Young (Phone)

IASB Board/Staff present: None

Board members absent: Herz

Staff in charge of topics: Belcher

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

Outside Participants: None

Summary of Decisions Reached:

The Board did not object to the staff's posting of proposed Statement 133 Implementation Issues No. B38, "Evaluation of Net Settlement with Respect to the Settlement of a Debt Instrument through the Exercise of an Embedded Put Option or Call Option" and No. B39, "Application of Paragraph 13(b) to Call Options That Are Exercisable Only by the Debtor" to the FASB website for a comment period of 35 days.

The Board decided that the effective date of those Implementation Issues would be the first day of the first fiscal quarter beginning after September 15, 2005. The new implementation guidance would be applied prospectively for all existing contracts and future transactions as of the effective date.

The Board decided that the transition for both Implementation Issues would follow the guidance in Section II.A of Statement 133 Implementation Issue No. K5, "Transition Provisions for Applying the Guidance in Statement 133 Implementation Issues." Under this guidance, with respect to derivatives that are required to be bifurcated under the new guidance (as would be the case for instruments affected only by Implementation Issue B38), the effects of initially complying with the revised implementation guidance as of the effective date would be reported as a cumulative effect adjustment. If under the newly issued implementation guidance an entity may not account separately for an embedded derivative that has been separately accounted for previously (as would be the case for those instruments affected only by Implementation Issue B39), the carrying amount of the related hybrid instrument at the effective date should be the sum of the carrying amount of the host contract and the fair value of the embedded derivative, with no cumulative effect adjustment recorded. Subsequently, any premium or discount on the host contract would be amortized or accreted to par prospectively as an adjustment to the yield of the underlying debt host contract.

The Board also accepted the staff's proposal to issue a technical revision to Statement 133 Implementation Issue No. B16, "Calls and Puts in Debt Instruments." The revisions relate to certain examples in Implementation Issue B16. As revised, the examples will only comment on whether the embedded put

or call is clearly and closely related, thereby requiring further analysis under paragraphs 12(b) and 12(c) to determine if the embedded put or call is required to be bifurcated and separately accounted for. These revisions would be posted at the time the Board gives final clearance for posting Implementation Issues B38 and B39.

Objective of the Meeting:

The objective of the meeting was to discuss whether the Board approves the posting of Implementation Issues B38 and B39 to the website for public comment, the effective date and transition guidance for those issues, and technical revisions to Implementation Issue B16. The objective of the meeting was met.

Matters Discussed and Decisions Reached:

1. Mr. Belcher began by introducing the topic. The proposed guidance in Implementation Issue B38 applies to embedded puts and calls that are considered not clearly and closely related to the debt host contract. The guidance in Implementation Issue B38 concludes that the potential settlement of the debtor's obligation to the creditor that would occur upon exercise of an embedded put or call option in a debt instrument meets the net settlement criterion in paragraph 9(a) of Statement 133.
2. The Statement 133 Implementation Issues Resource Group confirmed for the staff that the guidance in Implementation Issue B39 will decrease the number of embedded derivatives subject to the guidance in Implementation Issue B38. The Resource Group believes, and the staff concurs, that the guidance in Implementation Issue B38 is necessary for eliminating the diversity in practice that exists today in analyzing the net settlement criterion with respect to certain puts or calls that are contingently exercisable or whose payoff is indexed to something other than interest rates or credit risk. The staff recommends that the Board allow the staff to release Implementation Issues B38 and B39 for comment.
3. Mr. Herz submitted written comments that stated he supports the release of Implementation Issue B39 but does not support the release of Implementation

Issue B38 because the issue is too narrow and he is not convinced that the Issue reached the correct answer.

4. Mr. Trott supports the staff recommendation and the advice of the resource group to allow the staff to release the Issues for comment.
5. Ms. Schipper agrees with the substance of the drafts and agrees with the staff recommendation.
6. Ms. Seidman does not object with the conclusion of Implementation Issue B38 but is concerned about applying the notion of an issuer settling its own debt obligation to freestanding derivatives. If there is a call option on privately placed debt, exercising the call would exchange the proceeds for the full amount of the debt for the promissory note. This does not seem like a net settlement because it does not extract the interest rate or credit change for only that change in fair value. She would prefer to take out the guidance citing the applicability to freestanding derivatives.
7. Mr. Crooch does not object with the Issue, but does not like the level of detail and minutiae that the guidance deals with.
8. Mr. Young is in favor of moving forward with Implementation Issue B39 and does not fully support, but will not object to, the guidance in Implementation Issue B38.
9. The Board did not object to the staff's posting of Implementation Issues B38 and B39 for comment on the FASB website for a comment period of 35 days.
10. Mr. Belcher introduced the topic of effective date and transition. Because the guidance in Implementation Issue B39 will decrease the number of embedded derivatives subject to the guidance in Implementation Issue B38, the staff believes that the effective date and transition guidance for Implementation Issues B39 and B38 should be identical. The staff recommended that the effective date of the guidance in these Implementation Issues be as of the first day of the first fiscal quarter beginning after September 15, 2005. The new implementation guidance should be applied prospectively for all existing contracts and future transactions as of the effective date. That the staff believed the Board should consider two alternatives with respect to transition guidance.

Alternative A —Follow the transition guidance in Implementation Issue No. K5, “Transition Provisions for Applying the Guidance in Statement 133 Implementation Issues.”

Alternative B — Follow the transition guidance for changes in accounting principles in APB Opinion No. 20, *Accounting Changes*, and FASB Statement No. 3, *Reporting Accounting Changes in Interim Financial Statements*.

The staff recommended Alternative A.

11. The Board concurred, without objection, with the staff recommendation.
12. Mr. Belcher stated that the staff believes it is appropriate to make certain technical revisions to Implementation Issue B16 to be posted to the website concurrently with the final clearance of Implementation Issues B38 and B39 at a future Board meeting. In 2003, certain technical revisions were made to Implementation Issue B16 and paragraph 61(d) by FASB Statement No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. The staff became aware that there were certain technical revisions to paragraph 61(d) and Implementation Issue B16 that were not made to the examples in Implementation Issue B16 at the time Statement 149 was issued. Given the expected clearance later in 2005 of the guidance in Implementation Issues B38 and B39 regarding puts and calls in debt instruments, the staff believes it is appropriate to make those technical revisions to Implementation Issue B16 concurrently. The technical revisions related to other recently issued guidance are routinely not exposed for comment.
13. The question asked in Implementation Issue B16 relates to when embedded puts and calls that can accelerate the settlement of debt instruments should be considered clearly and closely related to the debt host contract, and, therefore, meet the condition in paragraph 12(a) of Statement 133. The technical revision being proposed by the staff to the examples in Implementation Issue B16 will effectively remove any guidance stating that an embedded derivative that is not clearly and closely related to the debt host must be bifurcated and separately accounted for, which had implied that the conditions in paragraphs 12(b) and 12(c) had also been met. As revised, the examples will only comment on whether the put or call is clearly and closely

related, thereby requiring further analysis under paragraphs 12(b) and 12(c) to determine if the embedded put or call is required to be bifurcated and separately accounted for.

14. The Board concurred, without objection, to the technical revisions.

15. At the request of Ms. Seidman, the staff agreed to circulate a draft of the proposed technical revisions to Implementation Issue B16 to the Resource Group for their review prior to final clearance.

Follow-up Items:

None

General Announcements:

None