**MINUTES**

Financial Accounting Standards Board

**To:** Board Members

**From:** Finanicial Instruments Team
(Cronin, ext. 443)

**Subject:** Minutes of the October 25, 2005 Joint Board Meeting (Financial Instruments)

**Date:** November 1, 2005

**cc:** Bielstein, Smith, Petrone, Leisenring, Financial Instruments Team, Polley, Gabriele, Sutay, Carney, FASB Intranet, Hickey, Upton, Francis

Topic: Long-Term Project Objectives and Reporting Changes in Fair Value of Financial Instruments

Basis for Discussion: Agenda Papers 5A and 5B

Length of Discussion: 9:00 a.m. to 10:30 a.m.

Attendance:

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

IASB members present: Tweedie, Barth, Cope, Engstrom, Garnett, Jones, Leisenring, McGregor, O'Malley, Smith, Whittington

IASB members absent: Bruns, Gélard, and Yamada

Staff in charge of topic: Francis (IASB), Lott (FASB)

Other staff at Board table: Bielstein, Cronin (FASB); Hickey, Upton (IASB)

Outside participants: None

**Summary of Decisions Reached:**

The Boards agreed on three objectives for improving financial reporting for financial instruments:

(a) To require that all financial instruments be measured at fair value with realised and unrealised gains and losses recognised in the period in which they occur

(b) To simplify requirements for hedge accounting and, if possible, reduce or eliminate the need for special accounting

(c) To develop a converged standard for derecognition of financial instruments that is simpler, easier to apply, and more consistent with concepts of financial reporting than any existing derecognition standard.

The Boards also decided that the classification of changes in the fair value of financial instruments into categories such as operating or financing and recurring or nonrecurring should be addressed by the performance reporting project. Furthermore, the Boards decided that they would require disclosure of the total changes in fair value for each type of instrument and the cash receipts and cash payments for each type of instrument, as well as information about the relative subjectivity of estimated changes in fair value.

**Objectives of Meeting:**

The objectives of this meeting were for the Board to discuss and decide on the long-term project objectives as well as how to appropriately address issues relating to the disaggregation of changes in the fair value of financial instruments.

**Matters Discussed and Decisions Reached:**

1. At the joint meeting in April 2005, members of both Boards expressed the view that adopting a single measurement attribute, fair value, would improve financial reporting and significantly simplify their accounting standards. At that meeting, however, Board members differed in their views about whether that solution would be attainable in the near future.

2. At this meeting, the Boards established three objectives for improving financial reporting for financial instruments to help the Boards evaluate and prioritize future projects on financial instruments. One long-term objective is to require that all financial instruments be measured at fair value with realised and unrealised gains and losses recognised in the period in which they occur. Board members stated that fair value measurement will produce more relevant information and solve many problems caused by using different measurement attributes for different instruments. However, a number of issues remain to be resolved before the Boards can establish such a requirement. Some of those issues are how to estimate fair value for instruments that are not traded or that are traded in government-controlled or illiquid markets, how to report the components of the net changes in fair values, what information to disclose about past changes in fair values and exposures to future changes in market factors, and which instruments and related assets and liabilities should be subject to the requirement.

3. Another objective the Boards established is to simplify requirements for hedge accounting and, if possible, reduce or eliminate the need for special accounting. A third objective is to develop a converged standard for derecognition of financial instruments that is simpler, easier to apply, and more consistent with concepts of financial reporting than any existing derecognition standard.

4. The Boards directed the staff to prepare material to be posted to each Board's website to (a) inform constituents of the Board's objectives, (b) explain the reasons why those objectives were established, (c) describe the nature and status of the work that remains to be done before the objectives can be achieved, and (d) summarize the work currently underway to address financial instruments issues. Additionally, the Boards requested that the staff prepare an article that contains a detailed explanation of why fair value is the most relevant measurement attribute for all financial instruments.

5. As part of the project to address how to report changes in fair values, the Boards also discussed possible methods that could be used to disaggregate the

changes in fair value of financial instruments, which would be included in a future due process document on disaggregation. The Boards decided that classifying changes in fair value as operating or financing and recurring or nonrecurring should be considered as part of the performance reporting project. The Boards also decided that they would require disclosure of the total changes in fair value for each type of instrument and the cash receipts and cash payments for each type of instrument, as well as information about the relative subjectivity of estimated changes in fair value. The staff will provide more specific recommendations about those disclosures at future Board meetings.

6. Finally, the Boards directed the staff to seek the views of users of financial statements about the information that those users would find relevant with regard to past changes in fair value of financial instruments, exposures to future changes in market factors, and how they might use that information.