MINUTES

Financial Accounting Standards Board

To:	Board Members
From:	Salo, ext. 312
Subject:	Minutes of March 31, 2004 Board Meeting
Date:	April 7, 2004
cc:	Bielstein, Smith, Petrone, Polley, Swift, Leisenring, Sutay, Thompson, Gabriele, Intranet, Project Team

Topic:	Loan Commitments: Discussion about the Urgency of the Project
Basis for Discussion:	Memorandums dated January 13, 2004, February 6, 2004, and March 24, 2004
Length of Discussion:	1:50 p.m. to 2:05 p.m.

Attendance:

Board members present:	Herz, Batavick, Crooch, Schieneman, Schipper, Seidman, Trott, Leisenring (IASB)
Board members absent:	None
Staff in charge of topic:	Wilkins
Other staff at Board table:	Smith, Laurenzano, Salo
Outside participants:	None

Summary of Decisions Reached:

The Board decided to remove the loan commitments project from its technical agenda. The principal motivating factor for the Board's decision last quarter to undertake a separate project on loan commitments was the significant diversity in practice existing among issuers of loan commitments, both in determining the fair value of loan commitments that must be accounted for as derivatives and in whether such commitments can ever be reported by the issuer as assets. The Board expects that the SEC's issuance of Staff Accounting Bulletin (SAB) No. 105, *Application of Accounting Principles to Loan Commitments,* will significantly reduce that diversity in practice; therefore, the Board decided to remove the project from its agenda.

Matters Discussed and Decisions Reached:

Mr. Wilkins began the discussion by describing part of the background of the loan commitments project. He stated that when the FASB staff learned, in a December 2003 speech, that the SEC staff would be issuing an SAB on the topic of loan commitments, the FASB staff suspended activity on the loan commitments project pending the issuance of the SAB. On March 9, 2004, the SEC staff issued SAB 105. Even though the SAB addresses different questions than those proposed in the December 2003 speech, SAB 105 addresses the measurement of loan commitments that are accounted for as derivatives under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, (as amended) and are entered into after March 31, 2004. Mr. Wilkins stated that after analyzing the SAB and speaking with constituent groups, the FASB staff expects that within the next several months the SAB will cause a significant reduction in the diversity about which the Board was most concerned.

Mr. Wilkins asked the Board to discuss what urgency was appropriate for the loan commitments project in view of the issuance of SAB 105. Mr. Wilkins posed two principle alternatives for the Board: (a) direct the staff to continue working on the project or (b) direct the staff to stop working on the project. He stated that if the Board directed the staff to stop working on the project, the Board could decide to either put the project on hold, while leaving it on the agenda, or drop the project from the agenda. Mr. Wilkins stated that if the staff was directed to stop working on the project, the issues relating to loan commitments likely would be discussed as part of the revenue recognition and fair value measurement projects. Mr. Wilkins stated the staff believes that the expected effect of the issuance of SAB 105—a significant reduction in the diversity in practice existing in October 2003—eliminates the principal basis for adding the project. Therefore, the staff recommended dropping the loan commitments project as a separate project at this time.

The majority of Board members supported the staff's recommendation to remove the loan commitments project from the technical agenda at this time. (Five Board members agreed: LFS, GMC, GJB, GSS, RHH; two Board members disagreed: EWT, KAS) The majority of Board members agreed with the staff's conclusion that the significant reduction in the diversity in practice eliminates the principal basis for adding the project and added the other reasons for their decisions. Ms. Seidman stated that she did not believe that preparers should be required to modify accounting for loan commitments three different times, which would be the case if this project reached a different answer than SAB 105 and the revenue recognition project reached yet another answer in the future. Ms. Seidman also stated that the current staff strain could be partially alleviated if this project was removed from the agenda. Mr. Schieneman noted that the revenue recognition project is far enough along in the process to deal with these issues within the scope of that project. Mr. Herz and Mr. Crooch stated that the elimination of the diversity in practice caused the project to drop on the list of priorities of the Board. Mr. Herz added that even though he agreed that the project should be dropped from the technical agenda, he wanted the project's issues to be an explicit component of the revenue recognition project.

Two Board members did not support the staff's recommendation to remove the loan commitments project from the technical agenda at this time. Mr. Trott agreed that the staff should stop working on the separate project but felt that the project should be put on hold rather than dropped. Ms. Schipper stated that this project should proceed forward as an important "test case" for the tentative decisions reached in the revenue recognition and fair value measurement projects. She stated that the attributes of issues related to loan commitments, such as difficult topics, alternative solutions, and available data, make it an ideal well-defined “test case”. Ms. Schipper also stated that other projects would benefit from the guidance developed in this project. She stated that the guidance developed in this project could be used (1) as part of the application guidance for the revenue recognition project, (2) as a mechanism to focus on reference market notions in dealing with fair value as part of the fair value project, and (3) to determine when internally developed intangibles arise and should be recognized. Mr. Leisenring stated that if the Board removed the project from the agenda, it would only delay the inevitable answering of whether written options can be assets.

Follow-up Items: None.

General Announcements: None.