



**Board Meeting Handout
FASB Staff Position—Credit Derivatives
August 6, 2008**

PURPOSE OF THIS MEETING

1. The purpose of this meeting is to redeliberate significant issues raised in the comment letters on the proposed FASB Staff Position No. FAS 133-b and FIN 45-c, *Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45*. The Board will discuss issues related to scope, disclosures, and effective date.

BACKGROUND

2. The proposed FSP was issued in May 2008 with a 30-day comment period. For a summary of comments received, please refer to the Comment Letter Summary, which will be available on the FASB's website shortly after the Board meeting.¹

ISSUE 1—SCOPE

3. The Board will discuss the following scope-related issues:
 - a. Whether the FSP's scope should be expanded to include all financial instruments
 - b. Whether the FSP's scope should be expanded to include any guarantee that (1) exposes the guarantor to significant potential loss from credit-risk-related events specified in the contract, and (2) is outside the scope of FASB Statements No. 133, *Accounting for Derivative Instruments and Hedging Activities*, No. 163, *Accounting for Financial Guarantee Insurance Contracts*, or FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*.

¹ http://www.fasb.org/project/fas133_credit_derivatives.shtml

- c. Whether the FSP should include additional guidance to clarify which instruments are within its scope, for example, (1) derivatives with multiple underlyings, and (2) hybrid instruments with embedded credit derivatives.
4. The staff recommends that the FSP's scope not be expanded to include all financial instruments or credit-risk-related guarantees that are outside the scope of Statement 133, Statement 163, or Interpretation 45. The staff also recommends that the final FSP include guidance to clarify its scope with respect to derivative instruments with multiple underlyings and hybrid instruments with embedded credit derivatives.

Does the Board agree with the staff's recommendations related to the FSP's scope?

ISSUE 2—PROPOSED DISCLOSURES

5. The Board will discuss the following issues related to proposed disclosures:
 - a. Whether the FSP should express a preference (for example, a higher level in a hierarchy) for the use of external credit ratings when compared to internal groupings in the entity's disclosures about a credit derivative's or guarantee's current status of payment/performance risk
 - b. Whether additional guidance should be provided on how an entity should group similar credit derivatives.
6. The staff recommends that the final FSP should not express a preference for the use of external credit ratings to satisfy the disclosure requirement of a credit derivative's or guarantee's current status of payment/performance risk. The staff also recommends that the FSP include additional guidance on how to group similar credit derivatives.

Does the Board agree with the staff's recommendations related to the FSP's disclosures?

ISSUE 3—EFFECTIVE DATE

7. The Board will discuss whether the FSP's effective date should be delayed to coincide with the effective date of FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities*.
8. The staff recommends that the FSP's effective date should be delayed so that it coincides with that for Statement 161.

Does the Board agree with the staff recommendation about the FSP's effective date?

ISSUE 4—OTHER MATTERS

9. The Board will discuss whether this FSP should include a clarification about Statement 161's effective date.
10. The staff recommends that this FSP should include a clarification about Statement 161's effective date to clarify the Board's intention that Statement 161's disclosures should be provided for any reporting period (annual or interim) beginning after November 15, 2008.

Does the Board agree with the staff recommendation for a clarification about Statement 161's effective date?

Does the Board direct the staff to proceed with a preballot draft of the final FSP?