

MINUTES



**To:** Board Members

**From:** Nesta (ext. 330)

**Subject:** Minutes of the March 5, 2003  
Board Meeting

**Date:** March 7, 2003

**cc:** Bielstein, Leisenring, Petrone, Smith, Swift, Polley, McKenna, Metcalfe,  
Nesta, Thompson, FASB Intranet, Sutay, Gabriele, Vincent

Topic: Replacement of Statement 107 - Block Discounts

Basis for Discussion: Memorandum dated February 27, 2003

Length of Discussion: Starting Time: 11:15 a.m. Concluding Time: 1:30 p.m.

Attendance:

Board members present: Crooch, Foster, Herz, Schieneman, Schipper,  
Trott, Wulff

Board members absent: None

Staff in charge of topic: McKenna

Other staff at Board table: Bielstein, Lott, Nesta

Outside participants: None

Summary for ACTION ALERT:

The Board decided to prohibit the use of block discounts to measure the fair value of unrestricted equity securities. [Five Board members agreed: GMC, JMF, RHH, KAS, EWT; two Board members disagreed: GSS and JKW]

Matters Discussed and Decisions Reached:

Ms. McKenna stated that the Board had directed the staff to draft guidance on the use of block discounts to measure the fair value of unrestricted equity securities if certain criteria had been met. She stated that the purpose of the meeting was to present the draft guidance to the Board and to recommend modifications and clarifications to the guidance.

Several Board members expressed concern over the draft guidance related to the requirement of an entity to have a demonstrated history of selling blocks of unrestricted equity securities. Ms. McKenna stated that the staff recommended allowing entities to establish a demonstrated history by documenting an accounting policy reflective of the entity's operations of selling block positions at discounts to the quoted market price. The proposed Statement could require entities to formally adopt a written policy of recording block discounts on all block positions provided the discount could be measured with sufficient reliability. She added that exceptions to the policy would be expected only to occur in unusual circumstances, and the policy would require that those exceptions be documented and approved by senior management. Mr. Trott stated that, instead of establishing a demonstrated history, he believes an entity should designate its intent with regard to each individual block held and then use a block discount to value the blocks it intends to sell as blocks. Other Board members disagreed with the staff's proposal and Mr. Trott because they did not believe that a valuation should be based on an entity's intent or on a written policy, but rather on the entity's activity.

Board members were not able to agree on a definition for *demonstrated history*. The Board ultimately decided to prohibit the use of block discounts in all circumstances when recording the fair value of a block of unrestricted equity securities. Board members noted that operational difficulties associated with identifying the circumstances under which an entity would be permitted to use a block discount led them to disallow the use of block discounts completely. Mr. Schieneman commented that he believes this issue affects only 10—15 entities. Mr. Leisenring also noted that allowing block discounts under any circumstances would have led to divergence with the IASB.

Mr. Schieneman and Mr. Wulff disagreed with the Board's decision. Mr. Wulff stated that he believes that an entity should always apply a block discount when

it has accumulated a block unless it intends to dispose of its shares in segments that are smaller than a block. Only then would an entity measure the value of the shares at the quoted market price.

Follow-up Items:

None.

General Announcements:

None.