

MINUTES



Financial Accounting
Standards Board

To: FASB Board Members

From: Fair Value Measurements Team
(Clark, x443)

Subject: Minutes of the October 1, 2008 Board Meeting—Proposed FASB Staff Position
FAS 157-d, *Determining Fair Value in a Market That Is Not Active* **Date:** October 06, 2008

cc: FASB: Golden, Bielstein, Proestakes, Stoklosa, Anderson, Mills, Clark, Vaheb, Willis (consultant), Glotzer, Lott, C. Smith, Richter, Gabriele, Sutay, FASB Intranet, Chookaszian, Posta, Klimek, Allen; GASB: Reese, Schermann; IASB: Leisenring

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, Interpretation, or FASB Staff Position.

Topic: Proposed FASB Staff Position FAS 157-d,
Determining Fair Value in a Market That Is Not Active

Basis for Discussion: Board Memorandum 1

Length of Discussion: 10:15a.m.–11:00 a.m.

Attendance:

Board members present:	FASB: Herz, Linsmeier, Seidman, and Smith
IASB: Leisenring	
Board members participating by phone:	Batavick
Board members absent:	None
Staff in charge of topic:	Anderson
Other staff at Board table:	FASB: Golden, Proestakes, Mills, Clark

Summary of Decisions Reached:

At the October 1, 2008 Board meeting, Mr. Herz announced that the rules of procedure governing the length of comment periods have been temporarily modified to allow a window of time within which the FASB can act, in the best interest of investors and the capital markets, to provide needed guidance.

As part of its discussions surrounding proposed FSP FAS 157-d, the Board agreed that the additional guidance afforded by this FSP is needed to aid practitioners in estimating the fair value of assets in markets that are not active via application of the principles contained in FASB Statement No. 157, *Fair Value Measurements*. The Board agreed to make proposed FSP FAS 157-d effective upon issuance; if the proposed FSP is finalized in time, entities with a calendar year-end would apply the guidance in their third-quarter financial statements.

In addition, the Board accepted the staff recommendation that the following transition guidance be provided in the proposed FSP:

- Any changes in fair value would be included in an entity's financial results; for example, entities with a calendar year-end would include any changes in fair value in their third-quarter results.
- Retrospective application of the guidance to prior periods would be prohibited.

The Exposure Draft of the proposed FSP FAS 157-d will be open to comment during the period of October 2, 2008 to October 9, 2008. A second Board meeting will be held on October 10, 2008, to discuss the comments received in response to the Exposure Draft of the proposed FSP FAS 157-d and any additional matters.

Objectives of Meeting

The objectives of the meeting were for the Board to (a) decide whether to expose proposed FSP FAS 157-d for comment, (b) express comments and suggestions on the draft form of the guidance, and (c) determine the effective date and transition guidance to accompany the proposed FSP. The objectives were met.

Matters Discussed and Decisions Reached

1. Mr. Mills began the meeting by providing background on the issue of determining fair value in a market that is not active. He stated that Statement 157 (a) establishes a single definition of fair value and a framework for measuring fair value to promote increased consistency and comparability in fair value measurements and (b) expands disclosures about fair value measurements to improve the quality of information provided to users of financial statements.
2. Mr. Mills emphasized the fact that the proposed FSP does not propose any additional disclosure requirements. He noted that the FASB staff is currently considering whether to recommend to the Board that it add to its agenda a short-term project to consider additional disclosures about fair value measurements, particularly in markets that are not active.
3. Mr. Mills referred to the joint press release issued by the SEC and the FASB and emphasized that the clarifications contained in that release are intended to help preparers, auditors, and investors address fair value measurement questions that have been cited as most urgent in the current economic environment. He noted that the press release discusses topics similar to those discussed in the proposed FSP as well as forced or disorderly transactions and other-than-temporary impairments.
4. Mr. Mills stated that the staff has considered feedback from constituent groups and determined that additional guidance on determining fair value in markets that are not active is necessary. In response to that feedback, he noted, the staff developed an illustrative example of how to determine fair value in markets that are not active.
5. Mr. Herz first repeated some of the comments made by Mr. Mills, including those regarding the need for additional guidance as a result of the current economic environment. He then stated that the proposed FSP is intended to address that need. He added that Statement 157 does not serve to exacerbate the financial difficulties being experienced by key players in the United States economy. Instead, the guidance serves the purpose of providing financial statement users with the information necessary to understand the financial condition of reporting entities.
6. Mr. Herz also informed the public about the temporary modification to the FASB Rules of Procedure. The modification affords the Board a window of time within which it can act, in the best interest of investors and the capital markets, to expedite the due process period associated with a particular document.

Issue 1: Comments and Suggestions Regarding the Proposed FSP

7. Mr. Mills asked Board members for their comments and suggestions regarding the draft of the proposed FSP.

Issue 1 Board Comments

8. Mr. Linsmeier stated that he would like the current draft of the proposed FSP to place more emphasis on the fact that the guidance contained within it represents application of the existing principles in Statement 157 to situations in which fair value determinations must be made in markets that are not active. He added that the proposed FSP is **not** new guidance.

9. Mr. Herz stated that he would like the scope of the document to include only financial assets, as opposed to financial assets and financial liabilities. Mr. Golden clarified that the scope of the latest draft of the proposed FSP includes only financial assets.

10. Mr. Leisenring asked how consistent the conclusions reached in the proposed FSP are with the Financial Stability Forum's report, [*Enhancing Market and Institutional Resilience*](#). Mr. Mills stated that the conclusions reached are somewhat consistent. Mr. Golden added that the only inconsistencies are those concerning the terminology used; the Financial Stability Forum's report references IFRS while the proposed FSP references Statement 157, which is part of U.S. Generally Accepted Accounting Principles (GAAP). He added that the staff has spoken with Ms. Eastman, an IASB staff member, and she concluded that the example in the proposed FSP is consistent with the Financial Stability Forum's report.

11. To clarify why the FASB has initiated the process to issue guidance immediately after issuing a joint press release with the SEC, Ms. Seidman stated that the guidance as proposed in this FSP will elaborate on the clarifications made by the press release. She added that the guidance as proposed in this FSP will provide a way in which the FASB can issue *authoritative* guidance on how to apply Statement 157 in markets that are not active. In addition, the guidance as proposed in this FSP will contain an example of how to approach fair value measurements in inactive markets and, as authoritative U.S. GAAP literature, it also will be applicable to private companies. Mr. Herz added that the guidance proposed by this FSP stresses the importance of practitioners being able to obtain all the relevant facts and circumstances and using judgment.

12. Mr. Leisenring stated that the FASB staff should heavily emphasize that the application of the guidance as proposed in this FSP does not result in entity-specific measures. He added that

the guidance as proposed in this FSP could not overemphasize the fact that its application still results in a market participant view that is consistent with the objective of Statement 157.

13. Mr. Smith emphasized the importance of the guidance proposed in this FSP because it highlights situations in which one would begin with a Level 2 measurement but in evaluating the relevant facts and circumstances conclude that the measurement was actually Level 3. He added that considering the issue to be one of “when does a good Level 3 measurement trump a bad Level 2 measurement,” is actually a mischaracterization. If one were to conclude that a measurement was a “bad” Level 2, one would not be in Level 2 of the fair value hierarchy to begin with per guidance in Statement 157. In addition, Mr. Smith stated that the proposed FSP is consistent with the press release issued jointly by the SEC and the FASB. The proposed FSP, however, goes into greater detail than the press release and also provides a concrete example that serves to demonstrate the key issues and risks practitioners should evaluate in applying Statement 157 in markets that are not active.

14. Mr. Linsmeier added that the proposed FSP makes the important point that a dated price that, by its nature, does not reflect changes in economic risks and circumstances is not a valid transaction price; the price must be adjusted. He added that the objective, however, remains the same—reaching an appropriate estimation of fair value by considering all facts and circumstances as well as all methods by which one may reach an estimation of fair value.

15. Mr. Herz stated that the framework of Statement 157, as issued, contemplates inactive markets. Mr. Leisenring added that the IASB Expert Advisory Panel, in its paper, emphasized that the problems experienced in the capital markets currently are not new; illiquidity and inactive markets have always been issues, but are now more pervasive.

16. Mr. Batavick echoed the comments of other Board members. He stated that the goal of the proposed FSP is to promote consistency in financial reporting. He added that the proposed FSP is a *clarification* of Statement 157 as it applies to markets that are not active and that it is consistent with the principles promulgated by Statement 157.

Issue 2: Effective Date and Transition

17. The staff recommended that the guidance proposed by this FSP be effective upon issuance. That is, entities with a calendar year-end would apply the guidance to their third-quarter financial statements. In addition, entities with a calendar year-end would include any changes in fair

value in their third-quarter results. Lastly, retrospective application to prior periods for which financial statements have already been issued would be prohibited.

Issue 2 Board Vote

18. The Board unanimously agreed to the staff recommendation.

Issue 3: Exposure Period

19. The staff recommended that the proposed FSP be exposed for comment for a period of approximately seven days beginning October 2, 2008, and ending October 9, 2008.

Issue 3 Board Vote

20. The Board unanimously agreed to the staff recommendation.

Follow-Up Items:

The Board gave its affirmative vote for the FASB staff to proceed as discussed during the Board meeting.

General Announcements:

A second meeting regarding proposed FSP FAS 157-d will be held on October 10, 2008.