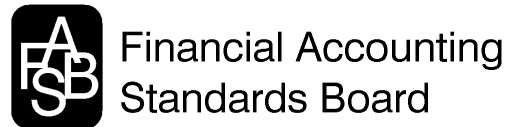


MINUTES



To: Board Members
From: Prince (x229)
Subject: Minutes of the August 6, 2008 Board Meeting: Proposed FSP FAS 133-b and FIN 45-c **Date:** August 19, 2008
cc: Leisenring, Bielstein, Golden, Proestakes, Stoklosa, Trench, Lott, Allen, Wilkins, Cropsey, C. Smith, Prince, Mechanick, Glotzer, Chookaszian, Posta, Gabriele, Malcolm, Barker, Finden, FASB Intranet

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 FSP.

Topic: Proposed FSP 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.

Basis for Discussion: Memorandum #3
Memorandum #4
Supplemental Memorandum to Memo #4

Length of Discussion: 9:00 to 9:50am

Attendance:

Board members present: Herz, Batavick (phone), Linsmeier (phone), Seidman, and Smith
Board members absent: None
Staff in charge of topic: Bhave
Other staff at Board table: Golden, Prince, Stoklosa, Trench, Wilkins, and Zhu
Outside participants: None

Summary of Decisions Reached:

The Board redeliberated issues related to the scope, disclosures, and effective date of 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 decided not to expand the FSP's scope to include all financial instruments or credit-risk-related guarantees that are outside the scope of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, or FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirement for Guarantees, Including Indirect Guarantees of Indebtedness of Others*.

The Board clarified that a derivative with multiple underlyings is within the FSP's scope if one (or more) of its underlyings exposes the seller/writer to significant potential loss from credit-risk-related events specified in the contract. The Board also clarified that the FSP's scope includes a credit derivative embedded in a hybrid instrument.

With respect to an entity's disclosure about a credit derivative's or guarantee's current status of payment/performance risk, the Board decided not to 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 way the entity manages its risk. The Board decided to include in the FSP some guidance on how an entity should group similar credit derivatives in complying with its disclosure requirements.

The Board decided to retain the effective date in the proposed FSP. Accordingly, the final FSP will be effective for the first reporting period (annual or interim) ending after November 15, 2008.

The Board also decided to include a clarification about the effective date of FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, in this FSP. The clarification would emphasize that Statement 161's disclosures should be

provided for the first reporting period (annual or interim) that begins after November 15, 2008.

The Board directed the staff to proceed to a draft of a final FSP for vote by written ballot.

Objective of Meeting:

The objective of this meeting was for the Board to redeliberate on the proposed FSP's scope, disclosures, and effective date. The objective was met.

Matters Discussed and Decisions Reached:

ISSUE 1—SCOPE

Comprehensive project

1. Mr. Bhave noted that some respondents to the proposed FSP suggested that the scope of the FSP be expanded to include all financial instruments. These respondents would prefer that the Board comprehensively address disclosures about financial instruments, rather than issue piecemeal guidance on a subset of instruments.

Staff Recommendation

2. The staff recommended that the scope of this project not be expanded to include all financial instruments.

Board Vote

3. The Board unanimously agreed with the staff's recommendation.

Board Comments

4. Mr. Herz and Ms. Seidman noted that respondents have a valid concern about the issuance of piecemeal disclosure requirements. Mr. Herz commented, however, that he would prefer not to expand the scope of the FSP.
5. Mr. Smith noted that the issuance of this FSP will correct an area where there is a significant void in disclosure requirements. To expand the scope of the FSP would increase the time needed to finish the project.
6. Msrs. Batavick and Linsmeier agreed with the comments made by Mr. Herz and Mr. Smith. Mr. Batavick commented that, in the future, the Board should avoid working on these piecemeal-type projects.

7. Mr. Herz noted that he would like the FASB to continue assessing the Investors Technical Advisory Committee's proposed disclosure framework. He further noted that, ideally, there would be a general objective-oriented requirement for entities to disclose information about risks.

Credit-risk-related guarantees

8. Mr. Bhave noted that at the Education Session held on July 23, 2008, some Board members requested that the staff perform research to assess the feasibility of expanding the scope of the FSP to include any guarantee that (a) exposes the guarantor to significant potential loss from credit-risk-related events specified in the contract, and (b) is outside the scope of Statement 133 and Interpretation 45. Mr. Bhave observed that the staff's research had identified several types of guarantees that met the aforementioned criteria, including different types of insurance contracts such as private mortgage insurance (PMI).

Staff Recommendation

9. The staff recommended that the scope of the FSP not be expanded to include credit-risk-related guarantees that are outside the scope of Statement 133 and Interpretation 45.

Board Vote

10. The Board unanimously agreed with the staff recommendation.

Board Comments

11. Ms. Seidman asked whether PMI is subject to the provisions of FASB Statement No. 5, *Accounting for Contingencies*. The staff noted that the Board's Exposure Draft on loss contingencies scopes out certain insurance contracts. Ms. Seidman observed that the Board could modify the scope of its project on loss contingencies to include those types of contracts that currently are not subject to disclosures similar to those proposed by the FSP.
12. Mr. Smith observed that it appears the staff is trying to avoid scoping in certain instruments that would be accounted for as insurance contracts. He noted that he agreed with the staff's recommendation not to expand the scope.

13. Mr. Herz asked whether credit default swaps written by an insurance company not classified as a financial guarantee insurance company would be within the scope of the FSP. The staff noted that those contracts would be within the FSP's scope. The staff further noted that insurance companies have to assess whether they have derivative instruments, as defined by Statement 133. If the contracts they write are credit derivative instruments and are not scoped out of Statement 133, then those contracts would be subject to the provisions of this FSP. Mr. Herz noted that he would prefer that the disclosure requirements of the FSP be applicable to all situations where an entity provides protection against credit risk in order to provide more context and information to users about a company's exposure to risk.
14. Mr. Linsmeier expressed his preference for not expanding the scope of the FSP. He would like to complete this project in order to provide users with timely information about the instruments currently within the scope of the FSP. He observed that the staff could perform an analysis as to how the Board should address those insurance contracts that (a) fall outside the scope of Statement 133 and Interpretation 45 and (b) expose the guarantor to significant potential loss from credit-risk-related events. Mr. Smith agreed with Mr. Linsmeier's suggestion.
15. Ms. Seidman noted that she would like to see if users want more disclosures about PMI prior to determining whether the Board should add a limited-scope project to address PMI contracts.
16. Mr. Batavick agreed with the staff recommendation because the current scope will provide for useful disclosures about a very large number of credit derivatives and certain guarantees. He wanted to proceed to a ballot draft in order to allow adequate time for adoption by preparers. He observed that if the Board expands the FSP's scope, they would have to re-expose the FSP, which may delay its effective date.

Clarifying guidance

17. Mr. Bhave noted that several respondents to the proposed FSP, as well as some Board members at the July 23, 2008 Education Session, recommended that the FSP clarify which instruments were within its scope, including instruments with multiple underlyings and hybrid instruments with embedded credit derivatives.

Staff Recommendation

18. The staff recommended that the FSP include guidance to clarify its scope with respect to derivative instruments with multiple underlyings and hybrid instruments with embedded credit derivatives.

Board Vote

19. The Board unanimously agreed with the staff recommendation.

Board Comments

20. Mr. Batavick commented that he agrees further clarification is needed.

21. Ms. Seidman noted that she does not want instruments to be excluded from the disclosure requirements of this FSP merely because they are embedded in another instrument (for example, a hybrid instrument with an embedded credit derivative). She provided the example of a credit-linked note—a security with an embedded credit default swap.

22. Mr. Herz commented that he would like all embedded credit derivatives to be included in the scope of the FSP, regardless of whether the derivatives are bifurcated. Mr. Linsmeier agreed.

ISSUE 2—PROPOSED DISCLOSURES

External credit ratings

23. Mr. Bhave noted that at the July 23, 2008 Education Session, some Board members stated that the FSP should not include any preference (or a higher level in a hierarchy) for disclosure of a credit derivative's or guarantee's current status of payment/performance risk based on external credit ratings when compared to internal groupings.

Staff Recommendation

24. The staff recommended that the 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.

Board Vote

25. The Board unanimously agreed with the staff recommendation.

Board Comments

26. Ms. Seidman agreed with the staff recommendation. She observed that some organizations may be performing a more dynamic credit analysis on a more timely basis than any external credit rating agency could perform.

Grouping of credit derivatives

27. Mr. Bhave noted that respondents to the proposed FSP suggested that the final FSP include guidance on how to group similar credit derivatives.

Staff Recommendation

28. The staff recommended that the FSP include guidance on how similar credit derivatives could be grouped.

Board Vote

29. The Board unanimously agreed with the staff recommendation.

ISSUE 3—EFFECTIVE DATE

30. Mr. Bhave noted that several respondents to the proposed FSP suggested that the FSP should have the same effective date as Statement 161 (fiscal years and interim periods beginning after November 15, 2008). Respondents commented that such a change would delay the requirements of the FSP by merely three months.

Staff Recommendation

31. The staff recommended that the Board change the FSP's effective date to the first reporting period beginning after November 15, 2008 (that is, the same as that for Statement 161).

Board Vote

32. The Board decided by a vote of 3 (RHH, TJL, LWS) to 2 (LFS, GJB) to retain the effective date in the proposed FSP.

Board Comments

33. Ms. Seidman noted that one of the respondents observed that if entities have not been applying the provisions of Interpretation 45, they will not have the systems in place to comply with the provisions of this FSP and will, therefore, need time to implement the necessary systems. She expressed her preference for having all derivative disclosures go into effect at the same time and, therefore, agreed with the staff

recommendation. She further noted that different effective dates for this FSP and Statement 161 would add unnecessary complexity.

34. Mr. Herz noted that he is sympathetic to the concerns of the respondents. However, he noted that there is a need for timely information about the instruments within the scope of this FSP. Mr. Herz further noted that the aim of this project was to provide disclosures sooner rather than later.
35. Mr. Batavick agreed with the staff recommendation because coordinating the effective date of all new disclosure requirements for derivative instruments is more effective and reduces complexity for preparers.
36. Mr. Smith questioned why people were trying to link the requirements of Statement 161 with this FSP. He noted that Statement 161 provides disclosures about how entities use derivatives and where they are recorded in the financial statements, whereas the requirements of this FSP would help users understand how companies are exposed to credit risk and how the companies evaluate their credit risk. He noted, however, that the delay in effective date would be short.
37. Mr. Linsmeier stated that, given the state of the market and the credit crisis, delaying the effective date may be undesirable, in terms of providing useful information. He, therefore, voted not to change the effective date. Mr. Smith and Mr. Herz agreed with Mr. Linsmeier.
38. Ms. Seidman noted that, given the upcoming requests by the Board for comment on proposed standards (for example, proposed amendments to FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*) and upcoming accounting pronouncements preparers may have to implement (for example, Statement 161) in the next few months, she thinks an earlier effective date is unreasonable.
39. Mr. Herz noted that he believes the demands by investors for this type of information are reasonable.

ISSUE 4—CLARIFICATION OF STATEMENT 161'S EFFECTIVE DATE

40. Mr. Bhave noted that questions have been raised about the effective date of Statement 161. Specifically, the current language of Statement 161 raises questions as to

whether the disclosures are required for entities with non-calendar-year-ends (for example, March 31, 2009) when they file their 2009 annual financial statements (for example, in their 10-K reports) since they do not report separate financial statements for the fourth quarter. Mr. Bhave stated that the staff would like to use this FSP as a way to clarify the Board's intentions about the effective date of Statement 161.

Staff Recommendation

41. The staff recommended that the language in Statement 161 should be revised to clarify its effective date provisions. The revised language would clarify that Statement 161's disclosures should be provided for the first reporting period (interim or annual) beginning after November 15, 2008. For example, an entity with a March 31 fiscal year-end would provide the disclosures for the fourth quarter interim period ending March 31, 2009 in its 2009 annual financial statements.

Board Vote

42. The Board unanimously agreed with the staff recommendation.

Other Matters Discussed

43. The Board directed the staff to proceed to a draft of a final FSP for vote by written ballot.

Follow-Up Items:

None.

General Announcements:

None.