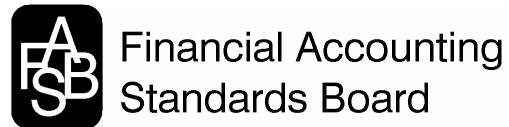


MINUTES



To: Board Members
From: McKenna (ext. 301)
Subject: Minutes of the December 3, 2003 FVM Board Meeting **Date:** December 8, 2003
cc: Bielstein, Smith, Petrone, FVM Team, T. Johnson, Slayton, Sletton, Lott, Bossio, Swift, Polley, Gabriele, Thompson, Mahoney, Leisenring, J. Paul, P. Martin, FASB Intranet

Topic: Phase 1 Fair Value Measurement Scope and Codification Issues: Fair Value Disclosures

Basis for Discussion: Memorandum dated November 20, 2003, and Audience Handout (attached)

Length of Discussion: 9:00 a.m. to 10:15 a.m.

Attendance:

Board members present:	Batavick, Crooch, Herz, Schieneman, Schipper, Seidman, Trott
Board members absent:	None
Staff in charge of topic:	Hurst, MacDonald
Other staff at Board table:	Bielstein, McKenna, Pinson
Outside participants:	None

Summary for ACTION ALERT

The Board discussed whether to include fair value disclosures in the scope of the project. The Board generally agreed that the disclosure objective should be to provide information useful in assessing the extent to which recognized assets and liabilities are measured at fair value, the methods used to determine those measurements, and the effect of those measurements on earnings. The Board plans to discuss specific disclosure requirements consistent with that objective at a future meeting.

Matters Discussed and Decisions Reached

Ms. Hurst asked the Board whether it agreed with the staff's recommendation discussed in the memorandum to include certain ("how to") fair value disclosures in the Phase 1 scope, referring to the possible disclosures listed in Item 2 of the audience handout. She said that in developing its recommendation, the staff reviewed the disclosure requirements of existing pronouncements within the Phase 1 scope, UAC input on the need for fair value disclosures, and related comments of respondents to the 2003 FASAC Survey on the need for a disclosure framework in general.

Ms. Schipper said that specific fair value disclosures should be separately considered on a standard-by-standard basis and not standardized in the Fair Value Statement. She said that standardizing disclosures for all items measured at fair value likely would not be practical, referring to both the judgments involved and the quantity of information that would need to be disclosed in order for the information to be meaningful. By way of example, she referred to the possible disclosure of "assumptions used in valuation techniques." She said that the sheer volume of information that would need to be disclosed would exceed any potential benefits, noting that the Board decided not to require that disclosure in other existing pronouncements for similar reasons. Instead, she suggested developing a broad disclosure objective that could be used as a basis for considering specific disclosures in developing future standards with fair value measurement requirements.

Mr. Schieneman agreed that a broad disclosure objective would be useful. In addition, he suggested that the Fair Value Statement include disclosures focusing on the quality (subjectivity) of the measurements. In that regard, he referred to disclosures about the valuation techniques used to develop those measurements (for example, whether market prices and/or market inputs are used versus a valuation technique with little or no market inputs).

Ms. Seidman referred to the inconsistency that currently exists between the level of disclosures required for financial instruments that are not recognized and other assets and liabilities that are recognized. She said that while a broad disclosure objective might be useful, the Fair Value Statement could address that inconsistency by including the disclosures suggested by Mr. Schieneman (disclosures focusing on the quality (subjectivity) of the measurements) and, for Level 3 measurements, disclosure about the significant assumptions used and the extent to which those assumptions are based on external market inputs. She added that the other possible disclosures are too item-specific for inclusion in the Fair Value Statement.

Mr. Trott agreed that specific fair value disclosures should be considered separately on a standard-by-standard basis and added that as a basis for considering such disclosures, the Board might want to use the fair value disclosure codification analysis prepared by the staff in this project. However, he suggested that the staff develop some general disclosures along the lines of the possible disclosure in Item 2(a) of the audience handout focusing on the magnitude of fair value measurements relating to both recognized assets and liabilities with ongoing fair value remeasurements (for example, financial instruments) and recognized assets and liabilities with periodic fair value remeasurements in the period(s) in which they are measured at fair value (for example, impaired long-lived assets). In that regard, he referred to the disclosures about financial instruments shown on page 15 of Attachment B to the memorandum, stating that he found those disclosures informative and that the Fair Value Statement would be an appropriate place to include similar

disclosures. He asked the staff to develop disclosures along those lines for discussion at a future meeting.

Mr. Crooch referred to the need to consider both the quantity and quality of disclosures in general. With respect to fair value measurements, he referred to the Board's project on reporting financial performance in which it is considering adding a column within the financial statements that identifies the impact on the statement of financial performance of fair value remeasurements. He said that he believes that reporting would provide important information within reasonable quantity/quality limits. He acknowledged that reporting issues are beyond the scope of the fair value project, but said that the Fair Value Statement would be an appropriate place to include disclosure of similar information until the Board issues a Statement in that project. In that regard, he referred to disclosures along the lines of the possible disclosure in Item 2(a) suggested by Mr. Trott that, in addition, would provide information about changes in those measurements—at a minimum, for financial instruments. He added that standardizing other more specific disclosures would not be useful because it would result in voluminous “boiler-plate” disclosures.

Mr. Herz reiterated Mr. Trott's comments on the usefulness of the disclosures about financial instruments shown on page 15 of Attachment B to the memorandum, emphasizing the need for disclosures that provide information about the “quality of earnings.” He agreed that the Board should consider ways to provide that type of information through the fair value project.

Mr. Batavik said that he supports developing a broad disclosure objective for fair value measurements, but not expanded disclosures that focus on issues that are more appropriately addressed in the project on reporting financial performance. He said that such disclosures, if necessary, could be considered in Phase 2.

The Board generally agreed that the disclosure objective should be to provide information useful in assessing the extent to which recognized assets and liabilities are measured at fair value, the methods used to determine those measurements, and the effect of those measurements on earnings. The Board

agreed to discuss specific disclosure requirements consistent with that objective at a future meeting.

Follow-up Items

The Board asked the staff to develop specific disclosure requirements consistent with the disclosure objective for discussion at a future meeting. The Board agreed, however, that while developing such disclosures is potentially important, doing so should not delay deliberations of the other measurement guidance under development in this project.

General Announcements

None.

BOARD MEETING HANDOUT FAIR VALUE MEASUREMENT PROJECT

At its December 3, 2003 meeting, the Board will discuss whether to include in the Phase 1 scope disclosures relating to how fair value measurements are determined, codifying and improving similar disclosures contained elsewhere in GAAP.

1. Need to Codify and Improve Fair Value Disclosures

FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, requires disclosures about the fair values of financial instruments, including disclosures relating to how the measurements are determined, in particular, the method(s) and significant assumptions used. However, in other pronouncements within the Phase 1 scope, similar disclosures vary, having been considered piece-meal on a standard-by-standard basis, if at all. Also, respondents to the 2003 FASAC Survey on the Priorities of the FASB expressed concerns about the lack of an overall disclosure framework.

2. Possible Disclosures

If applicable and subject to further consideration in its remaining deliberations, the Board will discuss the following possible disclosures relating to how fair value measurements are determined for each major class of assets and liabilities measured at fair value, whether or not recognized in the statement of financial position:

- a. Total amount of assets and liabilities measured at fair value, showing separately financial instruments measured at fair value that are not recognized in the statement of financial position
- b. Valuation techniques used to determine fair value
- c. For Level 3 estimates, significant assumptions used and the extent to which those assumptions are based on external market inputs
- d. Changes, if any, in the valuation technique(s) and significant assumptions used in a prior period
- e. The unit of account, that is, the level at which an asset or liability is aggregated for purposes of determining fair value.

For all assets and liabilities measured at fair value, the Fair Value Statement would require those disclosures relating to how fair value measurements are determined. For financial instruments, Statement 107 would continue to require its additional disclosures.