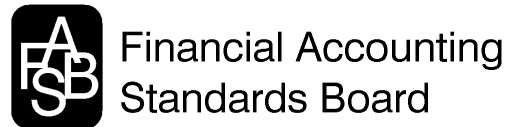


MINUTES



**To:** Board Members  
**From:** Prince (x229)  
**Subject:** Minutes of the April 30, 2008 Board Meeting: Proposed FSP FAS 133-b **Date:** April 30, 2008  
**cc:** Leisenring, Bielstein, Golden, MacDonald, Stoklosa, Trench, Lott, Allen, Wilkins, Cropsey, C. Smith, Derivatives Implementation Team, Financial Instruments Team, 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-a,  
*Disclosures about Credit Derivatives: Amendment of FASB Statement No. 133 and FASB Interpretation No. 45*

Basis for Discussion: Memorandum #2 dated April 9, 2008

Length of Discussion: 9:00 to 9:45am

Attendance:

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

Summary of Decisions Reached:

The Board decided to amend FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, to require credit derivative disclosures that would be similar to the current guarantor's disclosures in FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. The Board also decided to amend Interpretation 45 to require an additional disclosure about the current status of the guarantee (for example, the current credit risk of the underlying guaranteed obligation). Further, the Board decided that the proposed FSP be effective for all fiscal years and interim periods ending after November 15, 2008, and that the comment period for the proposed FSP be 30 days. Finally, the Board directed the staff to proceed to a draft of a proposed FSP for vote by written ballot.

Objective of Meeting:

The objective of this meeting was for the Board to discuss (a) the project's scope, (b) the proposed disclosures, (c) the effective date and transition, and (d) the comment period. The objective was met.

Matters Discussed and Decisions Reached:

**ISSUE 1—SCOPE**

1. Mr. Bhave stated that the objective of this project is to improve disclosures about credit derivatives. He observed that, given the current turmoil in the credit markets, some have expressed concerns that the disclosures in Statement 133 may not adequately disclose the potential adverse effects of changes in credit risk on the financial position and performance of sellers of credit derivatives.
2. Mr. Bhave noted that disclosures in Interpretation 45 apply to some, but not all, credit derivatives. He further noted that those credit derivatives that are not subject to the disclosure requirements of Interpretation 45 are substantially similar to guarantees that are within the scope of Interpretation 45. Since similar instruments should have similar disclosures, the staff believes that the disclosures in Interpretation 45 should apply to all credit derivatives.

### **Issue 1 Staff Recommendation**

3. The staff recommended that the scope of this project include all credit derivatives accounted for under Statement 133. The project would amend Statement 133 to require credit derivative disclosures that would be similar to the current guarantor's disclosures in FASB Interpretation No. 45. Further, in order to have all recognition, measurement, and disclosure requirements for derivatives in one place (that is, in Statement 133), the staff recommended that the Board amend Interpretation 45 to exclude all Statement 133 derivatives from its scope.

### **Issue 1 Board Vote**

4. The Board unanimously agreed (Crooch by proxy) with the staff's recommendation.

## **ISSUE 2—PROPOSED DISCLOSURES**

5. Mr. Bhave stated that, based on research performed by the staff and feedback received from users and preparers of financial statements, the staff recommends disclosures substantially similar to those in Interpretation 45 for the sellers of credit derivatives.
6. Mr. Bhave noted that, based on feedback from an Education Session, the staff has added a disclosure about the current carrying amount of a credit derivative. Further, based on input from users and preparers of financial statements, the staff has added a disclosure about the current credit risk rating of the underlying of the contract. Mr. Bhave stated that, based on feedback from an Education Session, no disclosures for buyers of credit derivatives will be required because there is nothing unique about credit derivatives to require additional disclosures by buyers for only this class of derivative instrument.

### **Issue 2 Staff Recommendation**

7. The staff recommended that the following disclosures be required for sellers of credit protection:
  - a. The nature of the credit derivative, the events or circumstances that would require the seller to perform under the credit derivative, the approximate term of the credit derivative, and the current credit risk of the referenced entity or obligation (based on either internal or external credit ratings, depending on how the seller manages its risk).

- b. The maximum potential amount of future payments (undiscounted) the seller could be required to make under the credit derivative. That maximum potential amount of future payments shall not be reduced by the effect of any amounts that may possibly be recovered under recourse or collateralization provisions in the credit derivative (which are addressed under (d) below). If the terms of the credit derivative provide for no limitation to the maximum potential future payments under the contract, that fact shall be disclosed. If the seller is unable to develop an estimate of the maximum potential amount of future payments under the credit derivative, the seller shall disclose the reasons why it cannot estimate the maximum potential amount.
- c. The fair value of the credit derivative.
- d. The nature of (1) any recourse provisions that would enable the seller to recover from third parties any of the amounts paid under the credit derivative and (2) any assets held either as collateral or by third parties that, upon the occurrence of any specified pre-agreed event or condition under the credit derivative, the seller can obtain and liquidate to recover all or a portion of the amounts paid under the credit derivative. The seller shall indicate, if estimable, the extent to which the proceeds from liquidation of those assets would be expected to cover the maximum potential amount of future payments under the credit derivative. In its estimate of potential recoveries, the seller of credit protection should consider the effect of any purchased credit protection with an identical underlying(s).

#### **Issue 2 Board Vote**

- 8. The Board decided to require credit derivative disclosures that are similar to the guarantor's disclosures in Interpretation 45. The Board also decided to amend Interpretation 45 to require an additional disclosure about the current status of the guarantee (for example, the current credit risk of the underlying guaranteed obligation).

#### **Issue 2 Board Comments**

- 9. Ms. Seidman stated that, in general, she supported the objective of the project. However, she noted that the project would be placing a tremendous amount of pressure on whether an instrument is technically a derivative instrument if the disclosure requirements for credit derivatives slightly differed from disclosures for guarantees subject to Interpretation 45. Ms. Seidman stated that her preference would be to simply subject credit derivatives to the disclosure requirements of Interpretation

45 and not attempt to modify those disclosures. Modifying those disclosures just adds complexity.

10. Ms. Seidman noted that the staff's recommendation adds a disclosure about the current credit risk of the referenced entity or obligation. Further, she noted that Interpretation 45's disclosure about recourse provisions has been significantly abbreviated in the staff's recommended disclosures for credit derivatives. She asked whether the staff's intent was to abbreviate. Mr. Bhave stated that the staff has no objection to using the same type of language in Interpretation 45. He noted that the disclosure about the current credit risk of the referenced entity or obligation is in response to current market conditions. Ms. Seidman stated that users would probably want the same type of disclosure for instruments within the scope of Interpretation 45.
11. Mr. Linsmeier asked Ms. Seidman if she would object to amending Interpretation 45 to add a disclosure about the current credit risk of the referenced entity or the obligation. Ms. Seidman stated that if there were a clean way of doing so, she might not object; however, she would want to make sure the Board was being consistent, for example, with the disclosures required in the "Accounting for Financial Guarantee Insurance Contracts" project.
12. Mr. Herz asked the staff to expand on the proposed disclosure about the current credit risk of the referenced entity or obligation. Mr. Bhave explained that, initially, the staff believed the disclosure would be tabular and that preparers would group credit derivatives by external credit risk ratings. However, preparers provided feedback that external credit risk ratings are not always available. As a result, the staff modified the disclosure to allow preparers to group credit derivatives by either internal or external credit risk ratings. Mr. Bhave stated that staff research led the staff to believe disclosure of current credit risk would be a helpful disclosure.
13. Mr. Golden noted that if the disclosure was dropped, preparers may still end up disclosing the desired information, depending on how the current language in Interpretation 45 is understood. Mr. Smith noted that the language in Interpretation 45 would not provide information about current conditions. Mr. Golden stated that the measurement of the obligation, as the time of performance under the obligation neared, might provide some useful information about the current exposure.

14. Mr. Smith noted that if the Board decided not to require disclosure about the current status of the credit derivative, theoretically, more information would still be provided about credit derivatives because they are measured at fair value.
15. Mr. Batavick asked the staff what type of categorization preparers would use if they were to disclose the current credit risk of the referenced entity or obligation using internal credit risk ratings. The staff responded that they did not know how preparers would categorize credit risk ratings. Mr. Batavick noted that his concern was a potential lack of comparability if credit ratings were developed internally. Mr. Young noted that one solution would be to require disclosure of credit risk using an external rating, unless an external credit rating was not available. In those circumstances, the disclosure could be based on an internal rating of credit risk.
16. Mr. Herz asked whether Board members disagreed with Ms. Seidman's proposal not to deviate from the disclosures in Interpretation 45. Mr. Batavick agreed with Ms. Seidman because of potential operational difficulties in applying the staff's proposed disclosures to credit derivatives.
17. Mr. Linsmeier stated that he would prefer that the staff perform further research to ensure that their proposal would make the disclosures for guarantees, credit derivatives, and financial guarantee insurance contracts consistent. Mr. Golden noted that he agreed with Mr. Linsmeier, but highlighted that measurement would differ for the three items mentioned by Mr. Linsmeier. Mr. Golden stated that he was not sure how helpful the disclosures would be given that the measurement of the three items is different under current GAAP.
18. Ms. Seidman stated that she believed when adding the disclosure requirement in FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, for credit-risk-related contingencies the Board made a mistake by focusing on the creditworthiness of the counterparties to the contract when, in certain circumstances, a third party is referenced in the contract. She noted that she views this project as a way of addressing that mistake.
19. Mr. Golden proposed that the Board amend Interpretation 45 to include a disclosure about the current status of the guarantee so that the staff's recommended disclosure about the current credit risk of the referenced entity or obligation could remain for

credit derivatives. Mr. Batavick asked if that would require adding a new project to the agenda. The staff responded that the current project would already amend Interpretation 45 and, therefore, no new project would have to be added.

20. Mr. Batavick noted that those who are currently applying the provisions of Interpretation 45 will need to be made aware that their disclosure requirements will be changing as a result of this project. Ms. Seidman recommended that the title be changed to indicate that the proposed FSP would amend Interpretation 45.

21. Mr. Linsmeier noted that he was concerned with the proposed phrase “current status” for the new disclosure requirement. Mr. Linsmeier stated that he wants to make sure that the concept is communicated well. Mr. Golden stated that the concept would be to look at the event the guarantee is indexed to and describe that event because the event will determine the payment under, and the value of, the guarantee. Ms. Seidman recommended that the staff consider what the Board had decided in their project related to FASB Statement No. 5, *Accounting for Contingencies*.

22. Mr. Herz noted that he was uncertain how Mr. Crooch would vote given the modification to the staff recommendation.

### **ISSUE 3—EFFECTIVE DATE AND TRANSITION**

#### **Issue 3 Staff Recommendation**

23. The staff recommended that the proposed disclosures be effective for all fiscal years and interim periods beginning after November 15, 2008. The staff also recommended that the proposed disclosures be applied prospectively with earlier application encouraged.

#### **Issue 3 Board Vote**

24. The Board decided that the proposed FSP be effective for all fiscal years and interim periods ending after November 15, 2008.

#### **Issue 3 Board Comments**

25. Mr. Smith asked the staff whether preparers would have difficulty complying with the proposed disclosures. He asked whether the disclosures could be provided for fiscal years ending after November 15, 2008. He stated that he would prefer having these disclosures in place by year end and recommended that the Exposure Draft of the

proposed FSP have an effective date for all fiscal years and interim periods ending after November 15, 2008. He noted that the Exposure Draft could ask a specific question about the effective date.

26. Ms. Seidman asked Mr. Smith why he wanted the effective date accelerated so that it would be effective prior to FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities*. Mr. Young noted that the proposed disclosures address the current turmoil in the markets well.
27. Mr. Batavick stated that he prefers the staff's recommended effective date because it will allow preparers of financial statements to only have to update their presentation of disclosures once to address the disclosure requirements in the proposed FSP as well as in Statement 161. Ms. Seidman stated that she agreed the effective date should be the same as the effective date of Statement 161.
28. Messrs. Linsmeier, Herz, and Young stated that they were in support of exposing Mr. Smith's recommended effective date in the Exposure Draft. Mr. Herz recommended that the Exposure Draft include a question on the proposed effective date as well as a question on how the proposed FSP would interact with Statement 161 and whether that interaction would cause difficulties.

#### **ISSUE 4—COMMENT PERIOD**

29. Mr. Bhave stated that, based on the Board's decision on the effective date of the proposed FSP, it would make sense to have a short comment period.

#### **Issue 4 Staff Recommendation**

30. The staff recommended a 30-day comment period for the proposed FSP.

#### **Issue 4 Board Vote**

31. The Board unanimously agreed (Crooch by proxy) with the staff recommendation.

#### **Issue 4 Board Comments**

32. Mr. Herz stated that he believes the staff recommendation is reasonable, except for Mr. Batavick's concern that persons applying the provisions of Interpretation 45 need to be made aware of the Board's decision to require a new disclosure about the current status of guarantees.

33. Mr. Golden stated that whether the comment period is 30 or 45 days, the key is to notify constituents of the change. He noted that this could be done through the Action Alert service and the FASB's website. He noted that the staff will also change the title of the proposed FSP to highlight that the FSP amends Interpretation 45.
34. Mr. Golden observed that certain preparers are requesting that there be different disclosures or a scope exception for dealers. These preparers are actively working on a recommendation.

**Other Matters Discussed**

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

Follow-Up Items:

None.

General Announcements:

Mr. Herz announced that, after staff research and discussion among the Board members, the Board has decided to drop from its agenda phase two of a project that would have focused on standardizing the definition of public versus nonpublic entities.