

MINUTES



To: Board Members
From: Nesta (ext. 330)
Subject: Minutes of the June 4, 2003 Board Meeting **Date:** June 6, 2003
cc: Bielstein, Smith, Petrone, Seidman, Bossio, Tamulis, Munro, Pinson, Cropsey, McIntosh, McKenna, Lott, T. Johnson, Slayton, Bullen, Nesta, Monroe, Tovey, Swift, Polley, Gabriele, Thompson, Mahoney (e-mail), LaPolla, Leisenring, CICA Staff (Martin and Salole), FASB Intranet

Topic: Proposal for Fair Value Measurement Project

Basis for Discussion: Memorandum dated May 28, 2003

Length of Discussion: 1:00 p.m. to 2:00 p.m.

Attendance:

Board members present: Crooch, Foster, Herz, Schieneman, Schipper, Trott
Board members absent: Wulff
Staff in charge of topic: MacDonald
Other staff at Board table: Bielstein, Leisenring, Bossio, Munro, Pinson, Cropsey, McKenna, Lott, T. Johnson, Nesta
Outside participants: None

Summary for ACTION ALERT:

The Board decided to add to its agenda a project to codify and improve existing guidance for measuring fair value. The near-term objective of the project is to develop a Statement that will establish a framework for fair value measurements for assets and liabilities measured at fair value under other accounting pronouncements. The longer-term objective of the project is to improve related conceptual guidance in FASB Concepts Statement No. 5, *Recognition and Measurement in Financial Statements of Business Enterprises*.

Matters Discussed and Decisions Reached:

Ms. MacDonald asked Board members whether they agreed with the proposed objectives and scope of the project discussed in the memorandum for the meeting. She emphasized that a near-term objective of developing a Statement that would establish a framework for fair value measurements would provide the Board with an opportunity to apply the guidance to items covered under proposed Statements currently under development in other agenda projects. A longer term objective of improving the related conceptual guidance in Concepts Statement 5 would provide the Board with an opportunity to (1) consider conceptual issues related to fair value measurement in the revenue recognition project and (2) work with the IASB and other national standard setters on a project (or projects) initiated after the IASB and Canada complete their joint research project on fair value (and other) measurement issues.

Project Objectives

The Board agreed with the proposed objectives and with the sequencing of those objectives, in particular, with prioritizing development of a Fair Value Statement.

Scope of Fair Value Statement

The Board agreed with the proposal to develop the Fair Value Statement over time in phases, but suggested that the staff expand the scope of the Fair Value Statement that would be developed in the initial phase beyond that set out in the proposal (that is, to include only those existing accounting pronouncements issued after FASB Concepts Statement No. 7, *Using Cash Flow Information and Present Value in Accounting Measurements*). Mr. Foster suggested that the scope include all existing accounting pronouncements issued before Concepts Statement 7. Mr. Trott noted that many existing accounting pronouncements issued before Concepts Statement 7 specify a fair value measurement attribute but provide little, if any, guidance for developing that measurement. For that reason, he suggested that the scope also include those existing accounting pronouncements issued before Concepts Statement 7. Other Board members agreed with Mr. Trott.

Scope of Conceptual Guidance

The Board agreed that the scope of the conceptual guidance developed in this project should include measurement reliability issues, subject to further consideration of the issues that might be addressed and discussion with other national standard setters. Ms. MacDonald noted that the IASB and Canadians expect to discuss measurement reliability issues in the joint research project at the July 2003 IASB meeting. In addition, Ms. Schipper suggested that going forward, the staff clarify the references to reliability (for example, as including all three of the elements of reliability discussed in the Concepts Statements) and examine related word choices and definitions. In that regard, she noted that because terms such as *precision* and *measurement error* have agreed-upon meanings to statisticians, they should be used in a manner consistent with their general meanings and not be redefined in a manner unique to accounting.

Follow-up Items:

None

General Announcements:

None



Board Meeting Handout

Proposal for Fair Value Measurement Project

At its June 4, 2003 meeting, the Board will discuss a proposal for a project to codify and improve existing guidance for measuring fair value.

1. Project Objectives

Do Board members agree with the proposed project objectives? If so, should the project prioritize development of a Fair Value Statement and should that Statement be developed over time in phases?

The near-term objective would be to develop over time in phases a Statement that would establish a framework for fair value measurements for assets and liabilities measured at fair value under other accounting pronouncements (Fair Value Statement). The longer-term objective would be to improve related conceptual guidance by amending CON 5, identifying opportunities for convergence in connection with related IASB initiatives.

2. Initial Fair Value Statement

Do Board members agree with the proposed scope of the Fair Value Statement developed in Phase 1 (Initial Fair Value Statement) and the preliminary timing of an Exposure Draft of that Statement, in particular, should that timing be linked to the timing of an Exposure Draft in both the business combinations and FAS 107 projects?

- a. The scope of the Initial Fair Value Statement would include (i) existing application guidance in CON 7, (ii) clarifying guidance developed in the business combinations projects, (iii) guidance developed in the FAS 107 project, and (iv) any incremental guidance in existing accounting pronouncements that are amended in Phase 1 of the project (discussed below).

- b. That guidance would apply to assets and liabilities measured at fair value under (i) existing accounting pronouncements issued after CON 7, (ii) a Statement issued in the business combinations projects, and (iii) a Statement issued in the FAS 107 project, thereby including financial assets and liabilities covered under existing accounting pronouncements (issued before and after CON 7) that are subject to the requirements of that Statement.
- c. An Exposure Draft of an Initial Fair Value Statement would be issued concurrent with an Exposure Draft of a Statement in both the business combinations and FAS 107 projects, or earlier if there is a significant difference in the timing of those projects.

3. Conceptual Guidance

Do Board members agree with the proposed scope and timing of the CON 5 Amendment? In particular, should the CON 5 Amendment together with the Fair Value Statement replace CON 7 in its entirety? Should the timing of the CON 5 Amendment be linked to the timing of related IASB initiatives? Should related FASB initiatives be separately undertaken earlier?

- a. The CON 5 Amendment would (i) describe a fair value measurement attribute, (ii) include existing conceptual guidance in CON 7 (in which case, the Initial Fair Value Statement together with the CON 5 Amendment would replace CON 7 in its entirety), (iii) establish the relevance of a fair value measurement, and (iv) clarify related reliability issues within the existing framework.
- b. The timing of a project to amend CON 5 would be linked to the timing of the IASB/AcSB research project on measurement issues and (or) a successor IASB project if and when such a project is added to the IASB's agenda. However, related FASB efforts could be separately initiated earlier.