

MINUTES



To: Board Members

From: Servicing Rights Team (Arveseth, ext. 384)

Subject: January 25, 2006 Board Meeting: Transition and Disclosures **Date:** February 1, 2006

cc: Bielstein, Smith, Petrone, Leisenring, Project Team, Mahoney, Sutay, Gabriele, Polley, Getz, Carney, 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 FASB Staff Position.

Topic: Proposed Amendment to Statement 140: Transition Guidance and Disclosures Related to Accounting for Servicing of Financial Assets

Basis for Discussion: Servicing Rights Memorandum No. 13

Length of Discussion: 11:40 a.m. to 11:47 a.m.

Attendance:

Board members present: Herz, Batavick, Crooch, Schipper, Seidman, Trott, and Young

Board members absent: N/A

Staff in charge of topic: Donoghue

Other staff at Board table: L. Smith, Wilkins, Barker, Lusniak, Abbate, Gibbons, and Arveseth

Outside participants: None

Summary of Decisions Reached:

The Board discussed two issues related to transition and disclosure requirements identified during a review of a draft of the final Statement on servicing rights. The Board decided the following:

1. To provide transition guidance that requires prospective application of the requirements for initial recognition of servicing assets and servicing liabilities to transactions that occur after the effective date of the Statement. Specifically, servicing assets and servicing liabilities that had been recognized under current FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, guidance would continue to be recognized subsequent to the effective date of the proposed amendment to Statement 140, but also would be subject to the initial and subsequent measurement guidance of the proposed amendment to Statement 140.
2. To delete a disclosure requirement that would have required an entity to disclose the direct and indirect effect on income from continuing operations of an election to subsequently measure any class of separately recognized servicing assets and servicing liabilities at fair value in the first fiscal year of such an election.

Objective of Meeting:

The objectives of the meeting were for the Board to decide (1) whether specific transition guidance should be provided for the provisions related to the initial recognition of servicing assets and servicing liabilities and (2) whether an entity should be required to disclose the effect of the fair value measurement election on income from operations in the first fiscal year in which it elects to subsequently measure at fair value any class of separately recognized servicing assets and servicing liabilities. The objectives of the meeting were met.

Matters Discussed and Decisions Reached:

1. Ms. Donoghue introduced the first issue, which was related to a decision made by the Board at the November 16, 2006 Board meeting, regarding the guidance for the initial recognition of servicing assets and servicing liabilities. Ms. Donoghue noted there are some servicing assets and servicing liabilities that were recognized under the existing guidance that will not comply with the requirements of the Statement. Ms. Donoghue stated that the constituents asked the staff to (a) verify that previously recognized servicing assets and

liabilities shall continue to be recognized and (b) verify that those servicing assets and servicing liabilities would be subsequently measured in accordance under the amended guidance.

2. Ms. Donoghue stated that the staff recommended that the guidance be applied prospectively and that previously recognized servicing assets and servicing liabilities that met prior requirements would continue to be recognized and be subject to the amended guidance on subsequent measurement. The Board members voted unanimously in support of the staff recommendation.
3. In regard to the second issue, Ms. Donoghue stated that the staff had received feedback from constituents on certain disclosure requirements in the Statement. Those disclosures require a servicer, upon making the election to subsequently measure a class of servicing assets and servicing liabilities at fair value, to disclose the effect of that election on income from operations in the year that an election is made for a class of servicing rights. Ms. Donoghue noted that auditors and regulators expressed concern over the auditability of such disclosures and questioned whether the disclosures would be meaningful or useful given the other disclosure requirements in the Statement and concerns over the reliability of estimations made to prepare those disclosures. In addition to the concerns of auditors and regulators, Ms. Donoghue stated that preparers expressed concern regarding the costs associated with re-configuring their accounting systems in order to comply with a fair value election for subsequent measurement in addition to the costs to keep the old processes and procedures in place. Preparers questioned whether the costs of these disclosure requirements can be justified in relation to the potential benefits of these disclosures to users. Ms. Donoghue stated that the staff recommends that the disclosure requirement be deleted from the Statement as the disclosure is likely to be unreliable and the costs would exceed the benefits.
4. Mr. Trott supported the staff recommendation as the other disclosures required by the Statement would compensate for omitting the requirement to

disclose an estimate of the effect of the fair value election on income from operations.

5. Mr. Young disagreed with the staff recommendation as he believes an entity would not be required to present hypothetical hedges in order to comply with the disclosure requirement. Mr. Young believes such presentation would be at the option of the preparer and thus the costs associated with presenting hypothetical hedges also would be at the option of the preparer. Mr. Young stated he did not support deleting these disclosure requirements on the premise that when the preparer is given the option of elective accounting, disclosures should be provided to help the user understand the impact of the elective accounting.
6. In response to Mr. Young's comments, Mr. Trott stated that if the disclosure is required an entity would incur costs maintaining the amortization method, maintaining the strata for impairment, and performing additional work that otherwise would be eliminated under the fair value measurement method. Mr. Trott stated that the Board structured the disclosure requirements in order to provide comparability from year to year by adding to the disclosure requirements for entities that do not elect fair value measurement. Mr. Trott also stated that the purpose of these disclosure requirements is to provide comparability between entities using the amortization method and entities using the fair value measurement method.
7. Also in response to Mr. Young's comments, Ms. Seidman stated that under the fair value measurement method, both the servicing rights and the related hedging instruments (securities, derivatives, etc.) would be marked-to-market, thereby offsetting the effect on earnings. Ms. Seidman further noted that in order to have comparability between the fair value measurement method and the amortization method entities would have to designate hypothetical hedges in order to present the offsetting effects for servicing rights measured using the amortization method in the prior periods. Ms. Seidman believes that the complexity the Board is attempting to eliminate with the Statement would not

be afforded for an additional year to entities if the disclosure requirement is not deleted from the Statement.

8. Messrs. Herz, Batavick, Crooch, and Trott and Ms. Seidman agreed with the staff recommendation. Mr. Young dissented and Ms. Schipper abstained.

Follow-up Items:

None.

General Announcements:

None.