



Financial Accounting Standards Board

MINUTES



Financial Accounting Standards Board

To: Board Members
From: Hurst (ext. 262)
Subject: Minutes of the August 20, 2003 Board Meeting **Date:** August 22, 2003
cc: Bielstein, Smith, Petrone, FVM Team, Bossio, Tovey, Monroe, Swift, Polley, Gabriele, Thompson, Mahoney (e-mail), Leisenring (IASB), Sutay, FASB Intranet

Topic: Phase I Scope Exclusions

Basis for Discussion: Memorandum dated August 6, 2003 and Audience Handout (attached)

Length of Discussion: 9:00 a.m. to 9:30 a.m.

Attendance:

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

Summary for ACTION ALERT:

The Board discussed APB and FASB pronouncements that require fair value measurements. The Board generally decided that the guidance for measuring fair value developed in this project would apply to those pronouncements, except for existing pronouncements that relate to stock-based compensation and leasing transactions, and FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan*.

Matters Discussed and Decisions Reached:

Ms. MacDonald asked Board members whether the guidance for measuring fair value developed in this project should apply to all ARB, APB, and FASB pronouncements that require fair value measurements. As a basis for that discussion, she referred to the audience handout listing possible scope exclusions.

The Board decided to exclude existing pronouncements that address stock-based compensation. Measurement issues related to stock-based compensation are currently being addressed in the Board's stock-based compensation project.

The Board also decided to exclude pronouncements that address leasing transactions. The existing fair value guidance relating to leasing is generally consistent with the fair value guidance being developed in this project; however, its application is different. Mr. Trott pointed out that the Board may need to address related issues in a subsequent phase of this project. Other Board members agreed.

With respect to the "other" items listed in Item 3 on the audience handout:

- The Board decided to include APB Opinion No. 21, *Accounting Changes*, in the scope of the Fair Value Statement, but to carry forward and modify the guidance for using present value in that Opinion (paragraphs 13 and 14) so that it is consistent with the guidance for using the "traditional" present value technique in FASB Concepts Statement No. 7, *Using Cash Flow Information and Present Value in Accounting Measurements*, (which is to be carried forward). Mr. Trott noted that, like the traditional present value technique, the discounting convention in Opinion 21 (rate commensurate with the risk) applies to contractual cash flow streams, and emphasized the importance of providing all similar guidance in one location.
- The Board acknowledged the piece-meal amendments made over time to FASB Statement No. 65, *Accounting for Certain Mortgage Banking Activities*, and decided to further amend Statement 65 to replace its remaining references to *market* with *fair value*, where appropriate.
- The Board agreed that because Statement 114 requires a "discounted" measurement, it does not fall within the scope of the Fair Value Statement, clarifying, however, that the practical expedient in Statement 114 represents a fair value measurement.

- The Board clarified that the market measurements in ARB No. 43, *Accounting Research Bulletins*, (which refers to lower of cost or market) and FASB Statement No. 89, *Financial Reporting and Changing Prices*, (which refers to current market value) do not represent fair value measurements.

Ms. Seidman raised concerns about the “practicability exceptions” to fair value measurements that exist throughout the literature, referring to the need to resolve inconsistencies resulting from those exceptions after issuance of the Fair Value Statement. Mr. Trott commented that those types of exceptions generally reflect reliability concerns, noting that the Board plans to separately address reliability issues in another phase of this project. He suggested that the Board defer to a future meeting discussion of whether to address related reliability issues earlier. Other Board members agreed.

Follow-up Items:

None.

General Announcements:

None.



**Board Meeting Handout
FAIR VALUE MEASUREMENT PROJECT
AUGUST 20, 2003**

Attached is a listing of existing pronouncements that refer to fair value (or “fair value-like”) measurements. At its August 20, 2003 meeting, the Board will discuss which, if any, of those pronouncements should be excluded from the scope of the Fair Value Statement developed in the initial phase of this project. Possible scope exclusions follow:

1. Pronouncements that address stock-based compensation awards (Opinion 25, FAS 123, FIN 44, and FTB 97-1). Those pronouncements are under reconsideration in the Board’s stock-based compensation project.
2. Pronouncements that address leasing transactions (FAS 13, FAS 98, FIN 23, FIN 24, FTB 86-2, and FTB 88-1). The fair value measurement guidance in those pronouncements is specific to leasing transactions and may be inconsistent with the fair value measurement guidance developed in this project.
3. Pronouncements that refer to fair value-like measurements, specifically:
 - ARB 43. The *market* measurement in ARB 43 (which refers to lower of cost or market) is not a fair value measurement.
 - Opinion 21. The present value guidance for the discounted measurement in Opinion 21 is inconsistent with the present value guidance for a fair value measurement in Concepts Statement 7 (which will be carried forward in the Fair Value Statement).
 - FAS 65. The *market* measurement in FAS 65 (which refers to lower of cost or market) is referred to as a fair value measurement in later pronouncements.
 - FAS 89. The *current market value* measurement referred to in FAS 89 (for purposes of voluntarily disclosing supplementary information on the effects of changing prices) is not a fair value measurement.
 - FAS 114. The practical expedient to the discounted measurement in FAS 114 (measurement based on a loan’s *observable market price* or the *fair value of the collateral* if the loan is collateral dependent) is a fair value measurement.

Existing Pronouncements That Refer to “Fair Value”

Pronouncement	Title
ARB 43	Restatement and Revision of Accounting Research Bulletins (Chapter 4)
Opinion 18	The Equity Method of Accounting for Investments in Common Stock
Opinion 21	Interest on Receivables and Payables
Opinion 25	Accounting for Stock Issued to Employees
Opinion 29	Accounting for Nonmonetary Transactions
FAS 13	Accounting for Leases
FAS 15	Accounting by Debtors and Creditors for Troubled Debt Restructurings
FAS 35	Accounting and Reporting by Defined Benefit Pension Plans
FAS 45	Accounting for Franchise Fee Revenue
FAS 60	Accounting and Reporting by Insurance Enterprises
FAS 61	Accounting for Title Plant
FAS 65	Accounting for Certain Mortgage Banking Activities
FAS 67	Accounting for Costs and Initial Rental Operations of Real Estate Projects
FAS 68	Research and Development Arrangements
FAS 84	Induced Conversions of Convertible Debt
FAS 87	Employers' Accounting for Pensions
FAS 89	Financial Reporting and Changing Prices
FAS 98	Accounting for Leases
FAS 106	Employers' Accounting for Postretirement Benefits Other Than Pensions
FAS 107	Disclosures about Fair Value of Financial Instruments
FAS 114	Accounting by Creditors for Impairment of a Loan
FAS 115	Accounting for Certain Investments in Debt and Equity Securities
FAS 116	Accounting for Contributions Received and Contributions Made
FAS 123	Accounting for Stock-Based Compensation
FAS 124	Accounting for Certain Investments Held by Not-for-Profit Organizations
FAS 133	Accounting for Derivative Instruments and Hedging Activities
FAS 136	Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others

Pronouncement	Title
FAS 140	Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities
FAS 141	Business Combinations
FAS 142	Goodwill and Other Intangible Assets
FAS 143	Accounting for Asset Retirement Obligations
FAS 144	Accounting for the Impairment or Disposal of Long-Lived Assets
FAS 146	Accounting for Costs Associated with Exit or Disposal Activities
FAS 150	Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity
FIN 23	Leases of Certain Property Owned by a Governmental Unit or Authority
FIN 24	Leases Involving Only Part of a Building
FIN 44	Accounting for Certain Transactions involving Stock Compensation
FIN 45	Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others
FIN 46	Consolidation of Variable Interest Entities
FTB 84-1	Accounting for Stock Issued to Acquire the Results of a Research and Development Arrangement
FTB 85-1	Accounting for the Receipt of Federal Home Loan Mortgage Corporation Participating Preferred Stock
FTB 85-5	Issues Relating to Accounting for Business Combinations
FTB 85-6	Accounting for Purchase of Treasury Shares at a Price Significantly in Excess of the Current Market Price of the Shares and the Income Statement Classification of Costs Incurred in Defending against a Takeover Attempt
FTB 86-2	Accounting for an Interest in the Residual Value of a Leased Asset
FTB 88-1	Issues Relating to Accounting for Leases
FTB 97-1	Accounting under Statement 123 for Certain Employee Stock Purchase Plans with a Look-Back Option