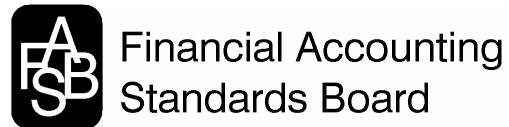


MINUTES



To: Board Members
From: Hurst (ext. 262)
Subject: Minutes of the May 19, 2004 FVM Board Meeting **Date:** May 25, 2004
cc: Bielstein, L. Smith, Petrone, FVM Team, E. Smith, Bossio, Swift, Polley, Gabriele, Sutay, Thompson, Mahoney, Leisenring, J. Paul, P. Martin, Bean, Allen, FASB Intranet

Topic: External Reviewer Comments

Basis for Discussion: Memorandums dated May 13 and May 14, 2004

Length of Discussion: 10:15 a.m. to 11:40 a.m.

Attendance:

Board members present:	Batavick, Crooch, Herz, Schieneman, Schipper, Seidman, and Trott (by phone)
Board members absent:	None
Staff in charge of topic:	MacDonald
Other staff at Board table:	Bielstein, Hurst, McKenna, Munro, Pinson, and E. Smith
Outside participants:	None

Summary of Decisions Reached

The Board discussed issues raised by external reviewers on a draft of the proposed FASB Statement, *Fair Value Measurements*. In response:

- a. The Board reconsidered its decision to prohibit broker-dealers and investment companies from using blockage factors in measuring the fair value of blocks, which would have required conforming changes to the AICPA Audit and Accounting Guides (Guides) for entities in those industries. Instead, the Board decided that the guidance in those Guides should remain unchanged until such time as it addresses other related issues that are beyond the scope of the initial phase of the fair value measurement project.
- b. The Board discussed the proposed disclosures about the use of fair value to remeasure assets and liabilities recognized in the statement of financial position. The Board clarified that for assets and liabilities with periodic fair value remeasurement requirements, the disclosures should apply regardless of the timing of the measurement (that is, whether before or at the reporting date). Also, disclosures about the effect of fair value measurements on earnings for the period should include unrealized gains and losses on those assets and liabilities. The Board decided that disclosures about other similar remeasurements should be encouraged but not required (for example, about inventories measured at current value under ARB No. 43, Chapter 4, "Inventory Pricing," or impaired loans measured at a present value amount under FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan*).
- c. The Board clarified that the guidance for measuring the fair value of restricted securities should apply to equity securities with restrictions terminating within one year that are included in the scope of FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*.
- d. The Board reconsidered the proposed effective date. The Board decided that the proposed Statement should be effective for financial statements issued for fiscal years beginning after June 15, 2005, and interim periods within those fiscal years.

Objective of Meeting

The objective of the meeting was for the Board to discuss issues that were raised during the external review of the proposed Statement. The Board was asked to reconsider certain decisions related to measurement of blocks, disclosures, measurement of restricted securities, and effective date.

Matters Discussed and Decisions Reached

Measurement of Blocks

Ms. MacDonald said that a number of reviewers disagreed with the proposal to prohibit the use of blockage factors for fair value measurements of blocks held by broker-dealers and investment companies within the scope of the Guides for those industries. She asked the Board whether it believed it should reconsider its decision before issuing an Exposure Draft (ED), thereby allowing current practice for those entities under the Guides to remain unchanged.

Mr. Batavick said that he would like to reconsider the issue. He said that since he decided to vote with the Board to prohibit the use of blockage factors, he had further studied constituent feedback and performed additional research on the issue. Based on that information, he believes the issue is one of unit of account and, therefore, he no longer believes that blockage factors necessarily violate the proposed fair value hierarchy which requires the use of observable market prices whenever those prices are available. Mr. Batavick said that for companies whose regular business constitutes buying and selling blocks of securities, permitting the use of blockage factors is more representationally faithful of their business model and may be consistent with Level 2 of the fair value hierarchy.

Ms. Schipper referred to past discussions the Board has had on this issue and said that she believes the Board has no new information on which to base a change of position. She said that one reason she and other Board members voted to prohibit the use of blockage factors was because it had failed in its attempts to clearly define and describe certain aspects of when it would and would not be appropriate to apply blockage factors when estimating fair value. She asked the other Board members who believe blockage factors should be allowed whether all entities would have discretion for determining when to apply a block discount.

Ms. Seidman said that she, like the staff, did not believe that all entities should be allowed to incorporate blockage factors into fair value measurements, but rather, only those entities currently allowed to do so under the Guides. Thus, broker-

dealers and investment companies within the scope of the Guides would continue to apply judgment as to when it is appropriate to use blockage factors.

Mr. Trott said that the issue should not be reconsidered and that his position on the issue had not changed. He said that permitting the use of blockage factors would result in guidance that would be inconsistent with the rest of the proposed Statement, which emphasizes that fair value measurements should be based on quoted market prices and most advantageous markets. Mr. Trott and Mr. Crooch said that it was likely, due to the reversal of the Board's position, that they would present an alternative view on the issue.

Ms. MacDonald said that due to Mr. Batavick's new position on the issue, the staff would revise the proposed Statement to indicate that the use of blockage factors would continue to be limited to those entities currently within the scope of the Guides. Ms. Schipper and Mr. Trott emphasized that this should be explicit in the proposed Statement.

Disclosures

Ms. MacDonald asked the Board to clarify the proposed disclosures about assets and liabilities measured at fair value in the statement of financial position. She said that for assets and liabilities with periodic fair value measurement requirements, some reviewers questioned the usefulness of both the balance sheet and income statement disclosures due to the timing of the measurements and varying measurement objectives. She indicated that the staff recommended limiting the disclosure requirements in the proposed Statement to assets and liabilities with ongoing fair value measurement requirements. She noted that, with regards to assets and liabilities with periodic fair value measurement requirements, most of the information is already required to be disclosed under other applicable pronouncements.

Mr. Trott agreed with the staff recommendation that the proposed disclosures should continue to apply to assets and liabilities with ongoing fair value remeasurements, but did not agree that the disclosure requirement should be omitted for other assets and liabilities remeasured at fair value during the period.

He acknowledged that for many of the assets and liabilities currently required to be measured periodically at fair value, related pronouncements require certain disclosures about those measurements. However, he suggested that it would be useful for entities to include all disclosures about fair value measurements in one place, or at least direct readers to where the disclosures can be found elsewhere in the financial statements. He suggested that the disclosure requirements could be modified to require disclosures about assets and liabilities with periodic fair value measurement requirements separate from disclosures about assets and liabilities with ongoing fair value measurement requirements.

Mr. Schieneman generally agreed with Mr. Trott's proposal. He emphasized, however, that he would prefer if related disclosures, whether required by the proposed Statement or other pronouncements, were included in one place in the financial statements. He also suggested that the Board consider requiring the disclosures for other fair value-"like" measurements. He said that he believes the disclosures should provide information about both the quality of earnings as well as the degree of subjectivity in the financial statements. By including assets and liabilities with other similar remeasurements, information about the quality of earnings and the subjectivity in the financial statements would be enhanced. Other Board members, however, said that requiring such disclosure would expand the scope of the project, which they are not willing to do at this time.

The Board generally agreed that the disclosures should apply to assets and liabilities with both ongoing and periodic fair value measurements. The Board clarified that for assets and liabilities with periodic fair value measurements, the disclosures should apply regardless of the timing of the measurements (that is, whether before or at the reporting date). Entities also will be encouraged, but not required, to make disclosures about other similar remeasurements (for example, about inventories measured at current value or impaired loans measured at a present value amount).

Ms. MacDonald asked the Board whether it agreed with the staff's recommendation that disclosures about the effect of fair value measurements on

earning for the period should include unrealized gains and losses on those assets and liabilities remeasured at fair value during the period. All Board members agreed with the staff's recommendation.

Measurement of Restricted Securities

Ms. MacDonald said that some reviewers asked the Board to clarify whether it intended for the proposed guidance for measuring restricted securities to apply to equity securities with restrictions that lapse within one year. Because those securities are considered unrestricted for purposes of applying Statement 115, in practice, the measurement is often based on the quoted market price for an otherwise identical unrestricted equity security, unadjusted for the effect of the restriction.

Ms. Seidman said that, economically, it does not make sense to ignore the effect of a restriction on securities even if that restriction is for less than one year. Other Board members agreed that the guidance for measuring the fair value of restricted securities should apply to equity securities with restrictions terminating within one year that are included in the scope of Statement 115.

Effective Date

Ms. MacDonald asked the Board whether it wanted to delay the effective date of the proposed Statement based on concerns expressed that the current proposed effective date would not allow entities sufficient time to make systems and other changes necessary to comply with the proposed Statement. Based on reviewer comments, the staff suggested an effective date for financial statements issued for fiscal years beginning after June 15, 2005.

Ms. Schipper noted that the staff recommendation would result in a significant delay because calendar year-end companies would not be required to apply the proposed Statement until their fiscal year ending December 31, 2006.

Mr. Herz suggested that the proposed Statement clarify that the Statement would be effective for fiscal years beginning after June 15, 2005, and interim periods within those fiscal years.

Certain Board members said that this might put entities with a June 30, 2005 year-end at a disadvantage, as they would have to comply with the proposed Statement sooner than other entities. However, others Board members pointed out that such entities would still have six months to transition to the changes required by the proposed Statement, assuming it is issued at the end of the fourth quarter of 2004. All Board members agreed with Mr. Herz's proposal.

Other

Ms. MacDonald asked the Board whether it had a preference as to what date to schedule a public roundtable meeting. The Board generally expressed a preference for September 2, 2004, contingent upon issuance of the ED for the proposed Statement in June as currently planned.

Ms. MacDonald said that the staff plans to preballot early next week and that the document will reflect all decisions to date.

Follow-up Items

None.

General Announcements

None.