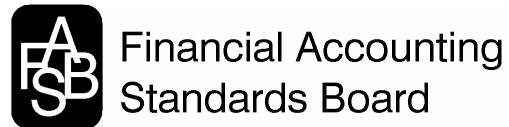


MINUTES



To: Board Members
From: Hurst (ext. 262)
Subject: Minutes of the February 25, 2004 FVM Board Meeting **Date:** February 26, 2004
cc: Bielstein, L. Smith, Petrone, FVM Team, E. Smith, Bossio, Swift, Polley, Gabriele, Thompson, Mahoney, Leisenring (IASB), J. Paul (IASB), P. Martin (CICA), FASB Intranet

Topic: Issues related to the issuance of an Exposure Draft of the proposed FVM Statement

Basis for Discussion: Memorandum dated February 19, 2004, and audience handout (attached)

Length of Discussion: 10:15 a.m. to 10:50 a.m.

Attendance:

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

Summary of Decisions Reached

The Board discussed the timing, comment period, transition and effective date of the FASB Exposure Draft, *Fair Value Measurements* (FVM ED). The Board reached the following decisions:

- a. The Board decided to allow at least a 75-day comment period to overlap with the comment period for the FASB Exposure Draft, *Business Combinations: Purchase Method Procedures*. The Board expects to issue both documents in the second quarter of 2004.
- b. For changes in methods of measuring the fair value of certain financial instruments (blocks and bid-asked spread estimates), the Board decided to require a cumulative-effect transition approach, requiring disclosure in the period of change of the effect of applying the proposed Statement on income before extraordinary items and net income (and related per-share amounts). Restatement of previously issued annual financial statements would not be permitted. Pro forma disclosures (of the effect of applying the proposed Statement to those items during all periods presented prior to initial application of the proposed Statement) would be encouraged but not required.
- c. For other changes in methods of measuring fair value and for disclosures about fair value measurements (amounts and methods used), the Board decided to require a prospective transition approach.
- d. The Board decided that the proposed Statement should be effective for interim and annual periods beginning after December 15, 2004, with early application encouraged.

Matters Discussed and Decisions Reached

Comment Period

Ms. Munro discussed the staff's recommendation to allow a 60-day comment period for the FVM ED to overlap with the comment period for the ED in the business combinations project (BC ED), noting that both documents should be issued in the second quarter 2004.

Mr. Trott agreed that the comment periods should overlap, but that constituents should be given more time to comment, adding that the FVM ED should be issued no later than the BC ED. All other Board members agreed.

The Board decided to allow at least a 75-day comment period.

Transition

Ms. Munro discussed the staff's recommendations for transition, focusing separately on (a) changes in methods for measuring the fair value of certain financial instruments (blocks and bid-asked spread estimates), (b) other changes in methods for measuring fair value, and (c) fair value disclosures.

Changes in Methods of Measuring the Fair Value of Certain Financial Instruments

Ms. Munro said that for the changes in methods of measuring the fair value of blocks and for bid-asked spread estimates, the staff recommends a cumulative-effect transition approach, requiring disclosure in the period of change of the effect of applying the proposed Statement on income before extraordinary items and net income (and related per-share amounts). Restatement of previously issued annual financial statements would be prohibited.

Ms. Schipper said that a cumulative-effect transition approach appeared to contradict the proposal in the recent FASB Exposure Draft, *Accounting Changes and Error Corrections—a replacement of APB Opinion No. 20 and FASB Statement No. 3*, to require retrospective application (restatement) whenever the necessary information is available. She noted that in this case the necessary information would be available. Although a retrospective transition approach

might be burdensome, the recent ED does not allow an alternative transition approach for that reason alone.

Mr. Trott agreed with Ms. Schipper, but only to the extent of voluntary accounting changes. He clarified that for mandatory changes (resulting from the application of a new accounting pronouncement), the recent ED implicitly allows for an “undue cost and effort” exception to retrospective application.

Ms. Seidman observed that there are disadvantages to each of the methods available for transition. She noted that requiring restatement of fair value measurements for certain financial instruments would potentially require that entities revalue millions of positions, especially for those measured using bid-asked spreads. She also noted that although entities would likely recognize transition gains in the period of initial application of the proposed Statement for block positions and subsequent losses at disposal, the cumulative-effect transition approach would be preferable over the other alternatives as it would be the least costly and burdensome. All other Board members agreed.

No Board members objected to the staff’s recommendation for a cumulative-effect adjustment transition for financial instruments (blocks and bid-asked spread estimates), requiring that the effect of applying the proposed Statement on income before extraordinary items and net income (and related per-share amounts) of the period of change be disclosed in the period of change. In view of that decision, the Board decided to encourage but not require disclosure of the pro forma effect of applying the proposed Statement to those items during all periods presented prior to initial application of the proposed Statement.

Other Changes in Methods of Measuring Fair Value

Ms. Munro discussed the staff’s recommendation that for other changes in methods for measuring fair value, principally, changes to Level 3 estimates, resulting from applying the proposed Statement should be accounted for using a prospective transition approach, noting that such changes may be indistinguishable from other changes in the estimates.

Board members agreed with the staff's recommendation on transition for other changes in methods of measuring fair value.

Fair Value Disclosures

Ms. Munro discussed the staff's recommendation that fair value disclosures should not be required in periods prior to initial application of the proposed Statement.

Board members agreed with the staff's recommendation on transition for fair value disclosures.

Effective Date

Ms. Munro discussed the staff's recommendation that a final Statement be effective for interim or annual periods beginning after December 15, 2004, with early application encouraged.

Ms. Seidman questioned the systems implications for entities affected by the proposed Statement, in particular, for changes in bid-asked spread estimates. Mr. Smith said that while the staff had not explicitly asked certain entities about that issue, the staff has learned in conversations with constituents that most entities were prepared to alter or have already altered their systems in light of Board decisions in the FVM project. He added that the staff would consider that particular issue further in subsequent discussions with those (and other) constituents.

Mr. Herz noted that the Board and staff likely would gain additional insight on that matter through the comment letter process.

No Board member objected to the staff's recommendation on effective date.

Follow-up Items

None.

General Announcements

None.

BOARD MEETING HANDOUT

FAIR VALUE MEASUREMENT PROJECT

At its February 25, 2004 meeting, the Board will discuss issues related to issuance of an Exposure Draft of the proposed Statement, *Fair Value Measurement*.

1. Comment Period

The Board will consider a proposed 60-day comment period to overlap with the comment period for the Business Combinations: Purchase Method Procedures Exposure Draft.

2. Transition Approaches

Changes proposed in the Statement affecting transition relate to financial instruments (blocks and bid-asked spread estimates), Level 3 estimates, and fair value disclosures. The Board will separately consider transition approaches for each of those items.

- a. For financial instruments (blocks and bid-asked spread estimates), the Board will consider both a retroactive (restatement or cumulative-effect adjustment) and prospective transition approach because the changes proposed in the Statement result in changes in the method of applying an accounting principle (a change in accounting principle in APB Opinion No. 20, *Accounting Changes*).
- b. For Level 3 estimates, the Board will only consider a prospective transition approach because changes in Level 3 estimates resulting from applying the Statement may be indistinguishable from changes in accounting estimates (in Opinion 20).
- c. For fair value disclosures, the Board will consider whether disclosure about fair value measurements should be required in periods prior to initial application of the Statement only if the Board adopts a retroactive restatement transition approach, and even then, only to the extent of the items (fair value measurements) that would be restated.

3. Effective Date

The Board will consider whether a final Statement should be effective for interim or annual periods beginning after December 15, 2004, with early application encouraged (assuming the Board does not adopt a retroactive restatement approach, in which case a delayed effective date may be considered).