MEMORANDUM

Financial Accounting Standards Board

To:	Board Members
From:	Nesta (ext. 330)
Subject:	Minutes of the February 5, 2003 Board Meeting
Date:	February 7, 2003
cc:	Bielstein, Leisenring, Petrone, Smith, Swift, Polley, McKenna, Metcalfe, Nesta, Thompson, FASB Intranet, Vernuccio, Sutay, Gabriele

Topic: Disclosures of Changes in Fair Value Estimation Techniques

Basis for Discussion: Memorandum dated January 24, 2003

Length of Discussion: Starting Time: 10:45 a.m. Concluding Time: 11:15 a.m.

Attendance:

Board members present:	Herz, Crooch, Foster, Schieneman (via phone), Schipper, Trott, Wulff
Board members absent:	None
Staff in charge of topic:	McKenna
Other staff at Board table:	Bielstein, Metcalfe, Nesta
Outside participants:	None

Summary for ACTION ALERT:

The Board discussed what disclosures should be made about the fair value estimation techniques used to measure financial instruments. The Board decided that entities should disclose the methods and significant assumptions used to estimate the fair value for each significant class of financial instruments. [Six Board members agreed: RHH, GMC, KAS, GSS, EWT, and JKW; one Board member disagreed: JMF.]

The Board also decided that, when a fair value estimation technique is changed, the following should be disclosed:

1. The reasons for the change and why the entity believes the new technique better estimates fair value
2. The effect of the change in estimation technique on net income in the period of change, if practicable. If not practicable, the entity will disclose the reasons why it is impracticable to quantify the effect of the change in technique on net income. [All Board members agreed.]

<u>Matters Discussed and Decisions Reached</u>:

Ms. McKenna opened the discussion by stating that the discussion at the education session on January 29, 2003, seemed to indicate that the Board favors classifying changes in models and model inputs as changes in accounting estimates rather than as changes in accounting principle. She added that several Board members suggested requiring enhanced disclosures about fair value estimation techniques and changes in those techniques as an alternative. She stated that, after discussions with several constituents, the staff recommended treating changes in fair value estimation techniques and changes in estimation inputs as a change in accounting estimates. Further, she stated that the staff recommended the following disclosures:

1. The methods and significant assumptions used to estimate the fair value for each significant class of financial instruments
2. The reasons for a change in estimation technique when it occurs and the reasons management believes the new technique better estimates fair value
3. The effect of the change in estimation technique on net income in the period of the change. This calculation would consider the same data set

run through both the old and the new model and the difference would be disclosed.

The Board agreed with the disclosure requirements in items 1 and 2. The Board noted that the disclosures of the information in items 1 and 2 would allow users to make a reliability assessment of the fair value measures provided by preparers. Further, with regards to the assumptions and methods used to estimate fair value, some Board members commented that the disclosures would allow users to determine whether entities' fair value measures for the same financial instrument were comparable, as users would be able to compare the methods and techniques used to estimate the fair value of that financial instrument.

The Board disagreed, in part, with the staff's recommendation in item 3. Board members noted that it often would be impracticable to quantify the net income effect of a change in fair value estimation technique. In those circumstances, the Board decided that entities should disclose the reasons why it is impracticable to quantify the impact of the change in fair value estimation technique.

The Board then discussed whether the staff should explore further the fair value measurement of interest income and interest expense. The Board agreed with the staff's recommendation not to do further research on fair value interest at this time because the fair value method would be operationally challenging and because it is likely that the costs to preparers of applying this method would exceed the benefits to users.

Follow-up Items:
None.

General Announcements:
None.