MINUTES

Financial Accounting Standards Board

To: Board Members

From: Fair Value Option Team
(Mike Kramer, ext. 273)

Subject: Minutes of the February 2, 2005 Board Meeting

Date: February 3, 2005

cc: Bielstein, L. Smith, Golden, Petrone, Leisenring, Project Team, E. Smith, Belcher, Thompson, Gabriele, Sutay, Getz, Polley, FASB Intranet

Topics: Fair Value Option: Whether to Permit Fair Value Option Election on a By-Selected-Risk Basis

Basis for Discussion: Board memorandum dated January 20, 2005.

Length of Discussion: 9:00 a.m. to 9:15 a.m.

Attendance:

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

IASB Board/Staff present: Leisenring

Board members absent: Batavick

Staff in charge of topics: Wilkins

Other Staff at Board table: L. Smith, Gerard, Laurenzano, and Kramer

Outside Participants: None

Summary of Decisions Reached:

The Board decided not to expand the Fair Value Option project to permit entities to elect (outside of the hedge accounting outlined in FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*) to recognize in earnings the change in an asset's or liability's fair value attributable to only certain selected risks (rather than the total change in fair value).

Objective of the Meeting:

The objective of the meeting was to decide whether to expand the Fair Value Option project to permit entities to elect to recognize in earnings the change in an asset's or liability's fair value attributable to only certain selected risks. The objective of this meeting was met.

Matters Discussed and Decisions Reached:

1. Mr. Wilkins introduced the project and the topic. He stated that after this project was added to the Board's agenda, the project team spoke with some interested constituents who supported expanding the project to allow entities to recognize in earnings the change in fair value of an asset or a liability that would relate solely to the impact of changes in specific risks, not just the overall change in fair value of the asset or liability. The staff wanted to bring this proposal before the Board because this decision would have a widespread impact on the entire project. To assist the Board in this and future decisions, the staff included a list of the project objectives in the Board memo and the audience handout. In addition, the materials for this meeting explained the advantages and disadvantages of allowing a fair value option on a by-selected-risk basis. Mr. Wilkins said that the staff recommended that the Board *not* expand the project to permit a fair value option on a by-selected-risk basis. The staff believes that expanding the project would defeat many of its objectives; the additional guidance that would be required would limit the opportunity for simplification. Deliberations regarding a by-selected-risk methodology would likely include many of the same issues and complexities that the Board faced when originally creating the hedge accounting guidance in Statement 133. In addition, expanding the project in

such a manner would not be convergent with IAS 39, *Financial Instruments: Recognition and Measurement,* which uses only the fair value measurement attribute.

2. Ms. Seidman agreed with the staff recommendation, the staff's articulation of the objectives of the project, and the risks and disadvantages of expanding the project. She stated that the Board has experience in the area, and if the Board would allow the identification of specific risks, it would rapidly expand into the identification of constraints, conditions, and rules required for improved financial reporting. She said that this project would be best as a broad improvement and simplification of the current guidance. In the future, the Board may want to consider simplifying the existing hedge accounting conditions in Statement 133, but the current Fair Value Option project is the most appropriate one for right now.
3. Mr. Trott wholly agreed with Ms. Seidman and the staff recommendation.
4. Mr. Crooch agreed with Ms. Seidman and the staff recommendation. He said that this project has been properly defined and that an expansion of this nature would be contrary to the Board's objectives.
5. Ms. Schipper agreed with the staff recommendation. She observed that the constituents are asking the Board to consider a measurement attribute that would allow them to remeasure for changes in one or more, but not all factors, that affect fair value. Mrs. Schipper stated that this was an interesting idea that should be considered in the future and that this concept may be used for other measurement attributes, for other projects, or to solve other problems. However, she feels that it is not appropriate for this project.
6. All Board members [DY, GB, BH, KS, LS, ET, and MC] agreed with the staff recommendation with no objections.

<u>Follow-up Items</u>:

None.

<u>General Announcements</u>:

None.