MINUTES

Financial Accounting Standards Board

To: Board Members

From: Mike Kramer, ext. 273

Subject: Minutes of the March 9, 2005 Board Meeting (Derivatives Disclosure—Agenda Decision) **Date:** March 21, 2005

cc: Bielstein, L. Smith, Golden, Petrone, Leisenring, Wilkins, Lott, E. Smith, Laurenzano, Belcher, Thompson, Gabriele, Sutay, FASB Intranet

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Topics: Derivatives Disclosure—Agenda Decision

Basis for Discussion: Board memorandum dated February 28, 2005.

Length of Discussion: 11:00 a.m. to 11:30 a.m.

Attendance:

Board members present:	Herz, Batavick, Crooch, Schipper, Seidman, and Young
IASB Board/Staff present:	Leisenring
Board members absent:	Trott
Staff in charge of topics:	Moss
Other Staff at Board table:	L. Smith, Golden, Belcher, Laurenzano, Kramer
Outside Participants:	None

Summary of Decisions Reached:

The Board decided to add a project to the agenda to reconsider the disclosure requirements of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. In response to criticism that Statement 133 lacks transparent disclosures that allow a user of the financial statements to assess the overall risk of derivatives on a reporting entity from both a quantitative and qualitative perspective, this project will consider enhanced disclosures, which will include a reconsideration of the usefulness of the existing disclosure requirements. The Board instructed the staff to consider whether the scope of the project should be expanded to include financial instruments that are not within the scope of Statement 133.

Objective of the Meeting:

The objective of the meeting was to determine whether to add a project to the Board's agenda to reconsider the disclosure requirements of Statement 133. The objective of the meeting was met.

Matters Discussed and Decisions Reached:

1. Mr. Moss opened the meeting by introducing the topic. The primary objective of the meeting is to determine whether to add a project to the Board's agenda to reconsider the disclosure requirements of Statement 133. Since the issuance of Statement 133 in 1998, the complexity of derivative products has continued to grow and their pervasiveness has continued to increase dramatically. Additionally, since its issuance, Statement 133 has been criticized by certain analysts, auditors, investors and others for lacking transparent disclosures that allow a user of the financial statements to assess the overall risk of derivatives on a reporting entity from both a quantitative and qualitative perspective. Many believe that the current disclosure requirements are inconsistent with the objective of financial reporting outlined in FASB Concepts Statement No. 1, *Objectives of Financial Reporting by Business Enterprises*, that information should be useful in investment and credit decisions.

2. Based on the concerns that have been raised by constituents, the staff recommends that the Board add a project to its agenda to reconsider the disclosure requirements of Statement 133. The staff believes that a significant amount of information already exists related to derivatives disclosures and, therefore, these sources would be used as a starting point for developing enhanced disclosures requirements. These sources include, but are not limited to (a) disclosures that were included in the original June 1996 Exposure Draft and August 1997 Task Force Draft of Statement 133, (b) disclosures from FASB Statement No. 119, *Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments,* that were not carried forward to Statement 133, (c) supplementary SEC disclosure guidance, and (d) International Accounting Standards Board (IASB) derivative disclosure requirements. Additionally, the staff believes that a byproduct to the development of enhanced disclosure requirements may be a necessity to provide guidance related to the display of derivatives and their underlying assets and liabilities from both a balance sheet and income statement perspective.

3. According to the basis for conclusions of Statement 133, it is evident that the Board did not carry forward certain disclosure requirements from the Exposure Draft in order to reduce the cost of applying the Statement without a significant reduction in the benefit to users. The staff is sensitive to this issue and, therefore, we intend to seek the input of a resource group on the usefulness, operationality, and perceived cost versus benefits of any proposed enhanced disclosures. Additionally, the staff believes that more disclosures do not necessarily create better financial reporting; therefore, we intend to reconsider the existing disclosure requirements of Statement 133 as part of the proposed project.

4. Mr. Batavick stated that he is in favor of adding the project to the agenda. He believes that the best approach would be to start with broad objectives and create disclosures from those objectives. One advantage of this project is to review and consolidate current footnote disclosure and potentially display more information on the face of the income statement or the balance sheet. It would be a good idea to include examples of required disclosures and potential elections.

5. Ms. Schipper asked if the staff was concerned about achieving convergence with this project and potentially working with the IASB on the project. Mr. Leisenring stated that the IASB is very far along with their derivatives disclosure project and they have already issued an Exposure Draft, received comment letters and are working on redeliberations. Mr. Moss said that the staff will contact the IASB to discuss their project and will keep convergence in mind during deliberations.

6. Ms. Schipper stated that it is important to consider the differences between IAS 39 and Statement 133. Those differences will have a serious effect on which required disclosures will be most useful. It is important to have this project fully grounded in US GAAP and based on Statement 133 and the needs of investors who are using US GAAP financial statements. Ms. Schipper agreed that the project should be added to the agenda.

7. Mr. Young also agreed that the project should be added to the agenda. He mentioned that the SEC has more expansive disclosure requirements of public registrants; however, certain registrants do not appear to follow these guidelines. He stated that there may be enforcement issues to be concerned about and that the staff should work with the SEC during the course of the project.

8. Ms. Seidman agreed that the project should be added to the agenda. The Board has received feedback that disclosures are currently lacking. The IASB project is broader than the proposed scope of this project, and it deals with risk management disclosures in general. We can keep an eye on convergence, but it would be best to not be bound by the convergence effort, due to the differences between the two projects. It is a good idea to get a strong resource group of experts for valuable feedback. It is also important to consider the effects of the fair value option project and include any disclosures that would be beneficial if an entity elects the fair value option.

9. Mr. Herz supported adding the project to the agenda. He said that just focusing on derivatives may be too narrow, and it may be more of an improvement to look at all risk management and speculation. Using a more holistic approach may present a better picture to investors.

10. Ms. Seidman agreed that the staff should evaluate different scopes and what their cost may be, and it should also solicit feedback about expanding the project. If it looks like an expanded scope will slow down the project significantly, it would be better to focus solely on derivatives. Mr. Batavick agreed.

11. Mr. Crooch stated that he supports adding the project to the agenda but is sceptical about expanding the scope. It is important to improve financial reporting in the short term but not add so much complexity that it would stifle the project completely. It would be better to start the project by focusing on derivatives, and then consider expanding the project in the future based on feedback received.

12. Ms. Seidman pointed out that there are already standards that require additional risk management disclosures, such as the SEC Market Risk disclosure requirements. It would be better to see where there are deficiencies and only address deficiencies in standards rather than in enforcement.

13. The Board agreed to add a project to the agenda to reconsider the disclosure requirements of Statement 133 and directed the staff to explore whether the scope of the project should be expanded to include financial instruments that are not within the scope of Statement 133.

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

None

<u>General Announcements</u>:

None