MINUTES

Financial Accounting Standards Board

To:	Board Members
From:	Drum (ext. 296)
Subject:	Minutes of the November 14, 2007 Board Meeting – Certain Statement 157 Implementation Issues and Effective Date of Statement 157
Date:	December 18, 2007
cc:	Golden, Cosper, MacDonald, Bielstein, Leisenring, Chookaszian, Posta, Lott, McBeth, Gabriele, Allen, Klimek, Tamulis, Maples, Mayer, Stevens, Tully, Wyatt, , C. Smith, Glotzer, Eastman (IASB), FASB Intranet

The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue a final Statement or Interpretation.

Topic:	Agenda Request – Effective Date of Statement 157
Basis for Discussion:	Board Memorandum 2 dated October 31, 2007
	Board Memorandum 3 dated November 2, 2007
Length of Discussion:	10:30am – 12:00pm.
Attendance:	
Board members present:	Herz, Batavick, Crooch, Linsmeier, Seidman, Smith and Young
Board members absent:	None
Staff in charge of topic:	Mayer, Tully
Other staff at Board table:	Golden, Drum, Wyatt, Maples, Cosper, Proestakes, Stevens (via phone)
Outside participants:	

Summary of Decisions Reached

The Board discussed three issues related to the implementation of Statement 157, *Fair Value Measurements,* and decided the following:

1. The Board decided not to add a project to its agenda to issue an FSP that would provide guidance related to determining the unit of valuation and the exit market concepts in FASB Statement No. 157.
2. The Board decided to issue an FSP to provide guidance that would clarify the principles in Statement 157 on the measurement of liabilities.
3. The Board affirmed that the disclosures in paragraph 32 of Statement 157 are not required for plan assets of a pension or other postretirement benefit plan in the financial statements of the plan sponsor. However, the Board decided to add a short-term project to its agenda to expand the disclosures about plan assets under FASB Statement No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits*.

The Board also decided to add a project to its agenda to issue an FSP that would defer the effective date of Statement 157 for one year for all nonfinancial assets and nonfinancial liabilities, except for those items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The Board directed the staff to proceed to a draft for vote by written ballot with a 30-day comment period.

Objective of Meeting

1. The objectives of this meeting were (a) for the Board to decide on whether to approve a partial deferral for the effective date of FASB Statement No. 157, *Fair Value Measurement,* and (b) for the Board to decide on whether they want to address certain implementation issues through the issuance of an FASB Staff Positions (FSP).

   The objectives were met.

Matters Discussed and Decisions Reached

2. Mr. Mayer opened the meeting by stating that at the October 17, 2007 Board meeting the Board decided not to defer the effective date of Statement 157 in its entirety. However, the Board directed the staff to (a) evaluate other potential deferral alternatives and (b) proceed with addressing certain implementation issues through issuance of an FSP. Mr. Mayer stated that the staff does not intend to provide rules-

based guidance to specific facts and circumstances. Rather, the staff's objective in providing implementation guidance is to clarify the principles in Statement 157.

Issue 1: Unit of valuation and exit market

3. Mr. Mayer introduced the first topic relating to application of the unit of valuation and exit market concepts in Statement 157. Constituents have indicated that there are divergent views on how those concepts should be applied. Frequently, alternative views regarding the application of those concepts are discussed in the context of loans that are measured at fair value. However, the staff observes that any interpretation of the unit of valuation and exit market concepts in Statement 157 would likely impact other financial and nonfinancial assets that are recorded at fair value. Consequently, if the Board decides to provide guidance relating to those concepts, the staff believes that such guidance should be a principles-based interpretation, not specific guidance on the measurement of loans. Mr. Mayer emphasized that the alternative views discussed relating to loans are solely to illustrate the differing interpretations of the guidance in Statement 157. Accordingly, the staff is not asking the Board its views on the how the unit of valuation and exit market concepts should be applied in the context of loans.

4. The first question Mr. Mayer discussed related to whether an asset could be valued based on the sum of its components in circumstances where the proceeds that would be received from breaking up an asset and selling the pieces would exceed the proceeds that would be received from selling the asset as a whole. He stated that the in-use premise in Statement 157 provides for circumstances where an asset's unit of valuation may be more aggregated than its unit of account; however, the Statement does not specify whether an asset should be valued on a more disaggregated basis than its unit of account. For example, can the fair value of a loan be determined based on the sum of (a) the exit price for a loan without the servicing rights and (b) the exit price for the servicing rights. Another example would be to determine the fair value of an airplane based on the sum of the exit prices for its individual parts, less the cost of disassembly (including a normal profit margin).

5. The second question Mr. Mayer raised related to whether an exit market should be the market in which an asset could be sold in its current form, or whether the exit market could be the market in which an asset would be sold after it is repackaged or modified. For example, if an entity determines that its principal or most advantageous market for loans is the securitization market, questions arise as to whether an entity should utilize (a) a whole loan price, (b) a securitization market price adjusted for the costs to transform the loans into a security, or (c) a securitization market price unadjusted for the costs to transform the loans into a security. Mr. Mayer discussed a second example related to entities with oil refining operations. Even though such entities principally put crude oil through a refining process and then sell the by-products to third-party customers, those entities would not value crude oil based on the prices of gasoline and other by-products, less the costs of refining and a normal profit margin. Rather, the entity would use actual crude oil prices as inputs to their fair value measurements, regardless of whether they sell crude oil to third-party customers.

6. Mr. Mayer summarized the above into the following two questions:

   Question 1: Can an entity conclude that there are multiple exit markets for the components of a single asset in circumstances where the unit of account is the asset itself? In other words, can the unit of valuation for an asset that is measured at fair value be at a more disaggregated level than its unit of account?

   Question 2: Certain assets may be "transformed" in some manner by the current holder before they are sold. For such assets, should fair value be determined based on the principal (or most advantageous) market for the "transformed" asset, less the costs of transformation and a normal profit margin on those activities, or should fair value be based on the price that would be received from a sale in the principal (or most advantageous) market for the asset in its current form?

7. Mr. Mayer did not ask the Board for its views on the above questions. Instead he asked the Board the following question:

Question: Does the Board want to issue guidance in an FSP that would clarify the principles in Statement 157 relating to the unit of valuation and exit market concepts?

8. Mr. Herz stated that in measuring an asset, Statement 157 requires consideration of the highest and best use of the asset. He stated that in applying the highest and best use concept, the unit of valuation could be further disaggregated from the unit of account depending on the circumstances. Additionally, he indicated that the objective of measuring an asset at fair value is to value the asset in its current form and other markets may provide an indication of the fair value. He stated that he is in favor of providing examples of applying the principles in Statement 157.

9. Mr. Linsmeier stated that the framework for measuring fair value in Statement 157 requires consideration beyond just the unit of valuation and exit market concepts. He discussed that the application of the framework also requires, for example, the fair value hierarchy. The fair value hierarchy requires preparers to maximize the use of observable inputs, which may necessitate looking toward other observable markets in determining the value of the item in its current form. Mr. Linsmeier stated that there may be a trade-off factors to consider in coming up with the fair value under different circumstances. As a result, no guidance can be issued that specifies one method or another. He stated that there will always be trade-offs that need to be made. Mr. Linsmeier stated that the principles and framework in Statement 157 are already present to address these issues. He noted that similar items may be valued differently for different entities under this framework and that this may be the outcome under a principles-based framework.

10. Ms. Seidman noted that, in addition to what Mr. Linsmeier said, she indicated that there are two other paragraphs in Statement 157 that are very relevant to this particular issue. First, she referenced paragraph 8 of Statement 157 that discusses how to identify the principal market. That paragraph indicates that the principal (or most advantageous market) should be considered from the perspective of the reporting entity, thereby allowing for differences between and among entities with different activities. Accordingly, there may not be a way to prescribe how the

principles should be applied. Second, she referenced paragraph 25 of Statement 157 that discusses a situation where an entity holds a large number of similar assets or liabilities for which a quoted price in an active market might be available, but for cost-benefit reasons, the entity may elect to employ an alternative pricing method that does not rely exclusively on quoted prices. This is an acceptable approach under Statement 157, however, the use of an alternative pricing method renders the fair value measurement a lower level measurement (in the fair value hierarchy). She stated that for an entity that exclusively sells loans into the securitization market, the entity could look to the securitization market as a starting point and then adjust that price for the effects of securitization in order to determine the exit price for the loans in their current form at the measurement date. She expressed concern over issuing an FSP that would signal a cookbook approach to applying the framework. She emphasized that the application of Statement 157 requires judgment.

11. Mr. Smith observed that different people who have the same loan on their books could value the loan using different methodologies because of their unique circumstances. He does not support issuing an FSP to provide guidance on this issue, or providing illustrative examples in an FSP because such examples may be interpreted as the only acceptable answer(s).

12. Mr. Crooch expressed concern that issuing this FSP will lead to a flood of additional specific implementation questions.

13. Mr. Batavick separated the question into two parts: identifying the item to be measured and how the item should be measured. He stated that the item to be measured is the item in its current form. He stated that there are a variety of factors to consider when applying the valuation framework and those factors should be documented because the "how" can be different between entities.

14. Mr. Linsmeier observed that the unit of account in Level 3 of the hierarchy is already componentized. He questioned why it would be inappropriate to sum various components in any valuation that considers all principles in Statement 157. Additionally, he expressed concern and was skeptical that the sum of component

parts may be greater than the whole. He stated that this could be the case when additional features are added and an asset or liability is broken into its component parts. He noted an example of credit enhancements being added to loans when they are securitized.

15. The Board decided not to issue an FSP that would provide guidance related to determining the unit of valuation and the exit market concepts in Statement 157.

Issue 2: Measurement of liabilities

16. Mr. Maples stated that Statement 157 defines the fair value of a liability as the amount that would be paid to transfer the liability in an orderly transaction between market participants at the measurement date (an exit price). Mr. Maples identified the following key points to consider in measuring a liability under Statement 157:

    a. The liability to the original counterparty would continue; it would not be settled, and

    b. The fair value of a liability shall reflect the nonperformance risk relating to that liability (including credit risk of the reporting entity) and that such nonperformance risk would remain the same before and after the hypothetical transfer.

17. Mr. Maples noted that in contrast to assets where there are observable markets or observable inputs for many assets, there are very limited circumstances in which an entity could transfer a liability in a transaction such that the liability would continue to exist, but the original obligor is completely relieved of any obligations to the counterparty. Mr. Maples noted that in most cases, an entity would extinguish a liability by settling the obligation directly with the counterparty rather than by paying another entity to assume the existing obligation. However, Statement 157 explicitly states that the fair value of a liability assumes a transfer such that the liability to the counterparty continues; it is not settled. In the limited circumstances where an existing liability may be transferred to a new obligor, the transferee may not have the same nonperformance risk as the transferor.

18. Mr. Maples stated that the staff believes the fair value measurement framework with respect to liabilities could be improved if the Board were to clarify that the amount that would be paid to transfer a liability at the measurement date (exit price) is the amount that a market participant with the same level of nonperformance risk (including credit risk) would demand to assume that liability. He noted that because the reporting entity and the hypothetical market participant have the same level of nonperformance risk, the fair value of a liability (the current exit price) may equal the amount the reporting entity would require to receive in order to assume an identical liability at the measurement date prior to consideration of differences in assumptions between the reporting entity and market participants. He also stated that in those circumstances where the reporting entity measures a liability using its own data, the reporting entity's data used to develop its assumptions about fair value would need to be adjusted if information is reasonably available without undue cost and effort that indicates that market participants would use different assumptions in pricing the liability.

19. Mr. Maples asked the Board whether they wanted to issue an FSP that would clarify the principles in Statement 157 for measurement of a liability.

20. Mr. Herz stated that he is of the view that this clarifying guidance helps to simplify the application of Statement 157 to the measurement of nontraded liabilities. He stated that he disagrees with the measurement objective for liabilities outlined in Statement 157.

21. Mr. Smith stated that he agrees with Mr. Herz. He noted that few members of a previous edition of the Valuation Resource Group[1] had a strong background in assessing fair value of liabilities. He agreed that issuing guidance would be valuable to clarify the principles in Statement 157.

22. Ms. Seidman noted that reading Statement 157 may lead one to conclude that the measurement objective is different than that of FASB Statement No. 107, *Disclosures*

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[1] The Valuation Resource Group (VRG) referred to by Mr. Smith last met in 2005 and is a different group than the current VRG (different members, different objective).

about Fair Value of Financial Instruments. She stated that entities revalue their debt based on the current prevailing rates. She noted that this measurement is not changed by the framework in Statement 157. Ms. Seidman agreed that the clarifying principles outlined by the staff are appropriate for measuring the fair value of a liability.

23. The Board voted to issue an FSP to provide guidance that would clarify the principles in Statement 157 on the measurement of liabilities.

Issue 3: Applicability of Statement 157 disclosures to plan assets in the financial statements of entities that sponsor defined benefit pension or other postretirement benefit plans

24. Ms. Wyatt indicated that this issue affects pensions accounted for under FASB Statement No. 87, *Employers' Accounting for Pensions,* and postretirement benefits other than pensions under FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions.* However, for simplicity, the discussion focused on pensions.

25. Ms. Wyatt stated that as a result of FASB Statement No. 158, *Employers' Accounting for Defined Pension and Other Postretirement Plans,* which amended Statement 87, entities that sponsor pension plans are required, as of the measurement date, to present the funded status of a pension plan as an asset or liability in the statement of financial position. The funded status of the plan represents the difference between the plan asset and the plan liability. Ms. Wyatt noted that Statement 87 requires plan assets to be recognized and measured at fair value pursuant to Statement 157. However, the pension liability is not measured at fair value.

26. Ms. Wyatt stated that constituents have inquired as to whether the disclosures required by Statement 157 apply to plan assets in the plan sponsor's financial statements. She stated that the staff believes this question is based on the following two constituent observations:

1. The amount presented in the statement of financial position is not a pure fair value amount.

2. Some of the Level 3 disclosures required by Statement 157 are difficult to apply for plan assets and may not provide useful information to financial statement users because of the unique smoothing provisions in Statement 87.

27. Ms. Wyatt indicated that the staff is aware of two different views. View A is that the disclosures in paragraph 32—except for paragraphs 32(c)(1) and 32(d)—of Statement 157 should be provided in the financial statements of entities that sponsor defined benefit pension and other postretirement benefit plans. However, the disclosures required by Statement 157 should be presented in the same note to the financial statements as the disclosures required by Statement 132(R).

28. Ms. Wyatt stated that View A proponents believe that the disclosures required by Statement 157 apply to the plan assets in the financial statements of entities that sponsor defined benefit pension plans because the scope of Statement 157's measurement and disclosure provisions is the same, that is, if an entity measures an asset or liability at fair value under Statement 157, then the disclosure provisions of that Statement also apply. She stated that proponents of this view note that Statement 87 requires plan assets to be recognized and measured at fair value, but presented on a combined basis in the statement of financial position with liabilities that are not measured at fair value. Thus, some believe that because the measurement of plan assets at fair value directly affects (a) a reported statement of financial position amount, (b) the funded status of the plan, and (c) comprehensive income for changes in those fair values, the disclosures should apply to plan assets.

29. Ms. Wyatt stated that View A proponents believe the disclosures should be provided for the following additional reasons:

a. The disclosures required by Statement 157 are meant to be in addition to those required by existing pronouncements such as Statement 132(R). Specifically, paragraph 5(d)(4) of Statement 132(R) encourages disclosure of additional information about specific assets within a category if that information is expected to be useful in understanding the risks associated with each asset category and the overall long-term rate of return on assets.

b. There is a disparity in disclosures required by Statement 132(R) related to assumptions for the plan obligations compared to the plan assets that determine the funded plan status reported in the statement of financial position,

c. Plan assets are among the most significant fair value measurements in the financial statements for many entities and that there is an increasing trend toward alternative investments (for example, hedge funds and similar vehicles) and other investments that are valued using significant unobservable inputs.

30. Ms. Wyatt stated that View B is that the disclosures required by Statement 157 should not be applied to plan assets in the financial statements of entities that sponsor defined benefit pension and other postretirement plans

31. Ms. Wyatt stated that View B proponents note that that paragraph A33 of Statement 157 indicates that “this Statement requires disclosure about the fair value of assets and liabilities recognized in the statement of financial position.” Since plan assets are not separately presented in the statement of financial position, proponents of this view believe that the Statement 157 disclosures should not be applied to plan assets. Ms. Wyatt stated that, proponents of this view point to paragraph C102 of Statement 157 which indicates that the disclosures required by Statement 157 are encouraged, but not required, for financial instruments which are not recognized and measured at fair value in the statement of financial position. She stated that those who disagree with this view believe that there is a fundamental difference between the fair value amounts disclosed pursuant to Statement 107 and Statement 132(R). The difference is that the amount disclosed pursuant to Statement 132(R) has a direct impact on an amount reported in the statement of financial position and comprehensive income.

32. Although View B proponents note the apparent disparity in disclosures required for plan assets compared to plan liabilities, they believe that the applicability of the disclosures required by Statement 157 should be considered in Phase 2 of the Board’s

project relating to *Postretirement Benefit Obligations Including Pensions,* which will address whether the disclosures required by plan sponsors need to be modified.

33. Ms. Wyatt presented two questions for the Board:

    a. Should the disclosures in paragraph 32 of Statement 157 (excluding the disclosures in paragraphs 32(c)(1) and 32(d)) be provided for the plan assets in the financial statements of entities that sponsor defined benefit and other postretirement benefit plans?

    b. If the Board concludes that the disclosures in paragraph 32 of Statement 157 should not be provided for plan assets in the plan sponsor's financial statements, does the Board want to proceed with the issuance of an FSP that would expand disclosures about plan assets under Statement 132(R)?

34. Mr. Linsmeier stated that he does not believe that the disclosures required by Statement 157 apply to plan assets in the sponsor's financial statements because the plan assets are not presented separately in the statement of financial position. However, he expressed concern because the disclosures would be relevant to financial statements users, especially in the current market. In regards to adding a separate project to address the disclosure requirements for plan assets as a part of an FSP related to Statement 132(R), Mr. Linsmeier believes that the FSP should look at the disclosures more holistically, not limited to just requiring certain disclosures in Statement 157.

35. Mr. Golden expressed concern over the logic that because the plan assets are presented on a net basis on the balance sheet that the disclosures required by Statement 157 do not apply. He indicated that other things may be netted on the balance sheet for various reasons. However, Mr. Golden stated that an acceptable rationale for not applying the Statement 157 disclosure requirements to plan assets could be based on the fact that certain elements of the disclosure requirements in paragraph 32 of Statement 157 are not relevant because of the smoothing mechanisms inherent in pension accounting.

36. Ms. Seidman stated that she interprets paragraph 32 of Statement 157 to mean that the disclosures are required for assets and liabilities that are measured at fair value on a recurring basis in periods subsequent to initial recognition and that the change flows through the income statement. She stated that the change in the fair value of pension assets does not flow directly through the income statement. In addition, she indicated that the Board did not contemplate that the disclosures would apply to plan assets in the sponsor's financial statements. Mr. Herz clarified that the disclosures would apply in the plans financial statements. Ms. Seidman stated that she agrees that a disclosure is needed for the fair value of plan assets, however, she indicated that she was not in favor of an FSP to address the disclosures in the sponsor's financial statements. She stated that this issue should be addressed in Phase 2 of the Board's pensions project and entities should be encouraged to disclose information related to the assumptions and methods used to value plan assets.

37. Mr. Proestakes indicated that the staff is not actively addressing disclosures under Phase 2 of the Board's project relating to *Postretirement Benefit Obligations Including Pensions*. Mr. Proestakes noted that a company could choose to show actual changes in plan assets through the income statement rather than employing the deferral method. Accordingly, he asked the Board if the Statement 157 disclosures would apply in that circumstance. Mr. Linsmeier reiterated that the disclosures would not apply because the funded status is not equivalent to fair value.

38. Mr. Young indicated that he believed that the Statement 157 fair value hierarchy disclosures apply to plan assets in the financial statements of plan sponsors. He noted the significance of alternative investments and other investments with significant Level 3 inputs by pension funds. Because of the relative magnitude of the pension assets on an entity's statement of financial position, he sees a problem with not requiring Statement 157 disclosures for pension assets. Mr. Young stated that he is in favor of an FSP that would clarify that some of the disclosures from paragraph 32 of Statement 157 would apply to plan assets.

39. Mr. Smith stated that he does not believe that the disclosures required by Statement 157 apply to plan assets in the sponsor's financial statements. However, he agrees with the concerns expressed about the importance of disclosures relative to the use of estimates when measuring plan assets at fair value. Mr. Smith stated that he is in favor of issuing an FSP that would require certain balance sheet related disclosures about the fair value of pension assets in addition to the disclosures required in Statement 132(R).

40. Mr. Batavick stated that he does not believe the disclosures required by Statement 157 apply to plan assets in the plan sponsor's financial statements. He stated that unless all four of the disclosures required by paragraph 32 of Statement 157 can be made, the disclosures do not apply. Mr. Batavick stated that he is not in favor of adding a project to address disclosures of the fair value of pension assets at this time. He stated that he could be in favor of spinning off pension disclosures from the pensions project in the form of an FSP. Mr. Batavick also noted that the spirit of Statement 132(R), in particular paragraphs 5(d)(4) and 8(c)(4) of Statement 132(R), encourages sponsors to disclose additional information about the different alternative investments. He is troubled that entities are not disclosing this additional information voluntarily. Mr. Crooch agreed.

41. Mr. Herz stated that he did not think Statement 157 applied to the plan assets in the plan sponsor's financial statements. However, he would be in favor of an FSP to amend Statement 132(R). He stated that such an amendment would not specify that the Statement 157 disclosures apply in their entirety, but rather the balance sheet related disclosures in Statement 157 would be added to those required in Statement 132(R). Ms. Seidman agreed and added that the disclosures should contain two separate items: the assumptions used to measure the fair value of the plan assets and the level in the hierarchy in which the inputs to the valuations fall in their entirety.

42. Mr. Linsmeier inquired as to the nature of the disclosures that would be added in addition to the balance sheet related disclosures required to Statement 157. Mr. Golden indicated that that would depend on how quickly the Board wanted the staff

to come back to the Board. Mr. Batavick expressed his preference for addressing all sponsor's disclosures related to plan assets together, rather than addressing disclosures on a piecemeal basis. All Board members agreed with Mr. Batavick.

43. The Board unanimously decided to add a project to its agenda to amend Statement 132(R) to include additional disclosures on plan assets.

Issue 4: Effective Date of Statement 157—Partial Deferral

44. Mr. Tully presented the following alternative approaches for a partial deferral for only nonfinancial assets and liabilities:

45. **Alternative A—Defer** the effective date of Statement 157 for nonfinancial assets and nonfinancial liabilities for one year, except for:

    a. Items under the scope of FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities,*

    b. Instruments accounted for, in whole or in part, as derivatives under FASB Statement No. 133*, Accounting for Derivative Instruments and Hedging Activities*, and

    c. Servicing assets and liabilities under FASB Statement No. 156, *Accounting for Servicing of Financial Assets.*

46. **Alternative B—Defer** the effective date of Statement 157 for one year for all nonfinancial assets and nonfinancial liabilities, except for those items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually).

    a. Examples of items that would be deferred under this alternative include:

        i. Nonfinancial assets and nonfinancial liabilities that are measured at fair value in a business combination or other new basis event, but are not measured at fair value in subsequent periods

ii. Reporting units that are measured at fair value in Step 1 of a Goodwill impairment test

iii. Nonfinancial assets and nonfinancial liabilities that are measured at fair value in Step 2 of a Goodwill impairment test

iv. Indefinite-lived intangible assets

v. Long-lived asset groups measured at fair value in Step 2 of a Statement 144 impairment test

vi. Asset retirement obligations that are measured at fair value at initial recognition, but are not measured at fair value in subsequent periods

vii. Liabilities for exit or disposal activities that are measured at fair value at initial recognition, but are not measured at fair value in subsequent periods

b. Examples of items that would **not** be deferred under this alternative include:

i. Derivatives

ii. Servicing assets and liabilities measured at fair value on a recurring basis under Statement 156

iii. Loans or Debt – may be measured at fair value in a business combination, in a lower of cost or fair value write-down, under Statement 159, or for Statement 107 disclosure

iv. Loans or Debt – that may be measured at fair value in a business combination, under Statement 159, or for Statement 107 disclosure purposes

47. **Alternative C—Defer** Statement 157 for nonfinancial assets and nonfinancial liabilities for one year, that are:

   a. Recorded at fair value in connection with a business combination subject to FASB Statement No. 141, *Business Combinations*,

   b. Intangible assets acquired with a group of other assets (but not those acquired in a business combination), for which the acquisition cost is allocated to the individual assets acquired based on their relative fair values.

   c. Measured at fair value in an impairment evaluation under FASB Statement No. 142, *Goodwill and Other Intangible Assets,* or FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.* Alternative C would not defer Statement 157 for assets or liabilities that are required to be recorded at fair value on a recurring basis

48. Mr. Tully stated that proponents of any of the above partial deferral alternatives believe that this approach will allow preparers additional time to address outstanding implementation issues, many of which relate to applying Statement 157 to nonfinancial assets and liabilities. He noted that they also believe that these alternatives will maintain one of the primary Statement 157 benefits to users, that is, improved disclosures, and consistency for recurring fair value measurements of financial and derivative instruments.

49. Mr. Tully stated that opponents believe that any partial deferral adds a significant amount of complexity that affects preparers, auditors, regulators, and users. Preparers indicate that because of the many steps involved in the process of implementing and applying Statement 157, a partial deferral will slow this process and add a layer of complexity. Further, many preparers (including those that are in the not-for-profit and private company community) indicate that they are still unsure of how certain principles in Statement 157 should be applied. It’s important to note that this uncertainty is not limited to nonfinancial items. While the issues may not necessarily

require standard setting, constituents indicate that the application of certain of those implementation questions, in the context of the Statement 157 principles, presents operational challenges. For example, the application of certain principles may result in significant systems changes that could be very costly. Thus, prior to making any systems changes, the entity needs to feel comfortable with their application of the principles in Statement 157.

50. Mr. Tully noted that from an auditor perspective, the lack of preparedness of entities in applying the Statement may require auditors to adjust their audit procedures, including completion of additional work to be comfortable with the entity's application. Regulators will also have to spend additional time analyzing whether or not a fair value measurement in a registrant's filing should be based on Statement 157. For financial statement users, a partial one-year deferral will presumably give users better information about financial instruments. However, it also could confuse them to the extent that they are required to determine which fair value measurements were done pursuant to Statement 157 and which were not when comparing (a) different entities and (b) analyzing an entity's own financial statements.

51. Mr. Tully stated that the staff also considered the benefits of a deferral for private entities. Most private entities (other than financial institutions and certain other entities) are not required to reflect Statement 157 in its financial reporting until year-end (since they do not typically have quarterly reporting obligations). As a result, many private entities already have additional time as compared to public entities. Additionally, outstanding implementation issues do not appear to be limited only to those entities that are private.

52. Mr. Tully stated that the staff also considered the benefits of a deferral based on the size of an entity. While small companies typically have fewer resources, they typically have fewer fair value measurements that need to be performed.

53. Mr. Tully stated that the staff continues to support a full deferral with enhanced disclosures during a one-year deferral period.

54. Mr. Tully presented the following two questions to the Board:

    a. Question 7 – Does the Board agree with a partial deferral based on Alternative B (that is, a deferral for one year for all nonfinancial assets and liabilities except those that are recognized or disclosed at fair value in the financial statements on a recurring basis)?

    b. Question 8 – If the Board decides that a one-year *partial* deferral *should not* be granted, does the Board want to reconsider the decision made at the October 17, 2007 Board meeting on a full deferral of Statement 157?

55. Mr. Crooch questioned whether the implementation questions existed when Statement 157 was issued. He questioned how a deferral would affect entities' preparedness for implementing Statement 157.

56. Mr. Young questioned whether the staff's intention for proposing the deferral for one year was to align the effective date of Statement 157 with the effective date of the business combinations project. Mr. Tully responded that one of the benefits of a one-year deferral is the alignment with the business combination project.

57. Mr. Crooch stated that he has no confidence that issues will be adequately resolved during the deferral period. He also stated that he views the attempt to delay as an attempt to alter Statement 157. He expressed concern over the effects of a change in the makeup of the Board during the deferral period. Therefore, he stated that his first choice would be to not defer the effective date. However, he noted that preparers have significant concern and, therefore, he stated that he would be supportive of Alternative B.

58. Ms. Seidman expressed her preference for a full deferral with additional disclosures for items measured using level 3 inputs. She stated that many constituents are not prepared to implement Statement 157. She stated that some external pricing services and software providers have indicated that they will not be prepared until the middle of 2008. Ms. Seidman noted that because of the low level of preparedness, the application of Statement 157 is compromised by a rushed and incomplete

implementation. She stated that she would prefer an interim disclosure and allow for a robust implementation of the full standard in one year. Ms. Seidman stated that of the partial deferral options, she prefers alternative B because it is the simplest to explain.

59. Mr. Young stated that he supports Alternative B. He stated that he would support some additional disclosures.

60. Mr. Batavick expressed that his first choice is a full deferral with interim disclosures on the nature of the inputs to the fair value measurements. He stated that he agrees with the staff's analysis that a partial deferral adds complexity. Mr. Batavick stated that he is sympathetic to the concern of preparers, particularly small and private preparers. He also noted that many implementation issues exist for nonfinancial assets and liabilities as well as financial assets and liabilities. He expressed interest in allowing the Valuation Resource Group more time to help the staff address implementation issues and allowing more time to update accounting and auditing literature for Statement 157. However, Mr. Batavick stated that he would support Alternative B.

61. Mr. Smith stated that he supports a full deferral, however would support Alternative B.

62. Mr. Linsmeier stated that he supports Alternative B.

63. Mr. Herz stated that he supports Alternative B. Mr. Herz mentioned that Statement 157 does not require measuring fair value where fair value measurements were not previously required. He stated that he is of the view that the fair value measurements and disclosures for financial instruments are very valuable and it is important for the Statement 157 to be effective for financial instruments.

64. Mr. Golden suggested that the comment period on the FSPs discussed at this meeting will be 30 days. He further asked if the proposed FSP on the removal of Statement 13 from the scope of Statement 157 could be included in this exposure effort. The Board agreed.

65. Mr. Young questioned how an entity will communicate whether they have adopted Statement 157. Mr. Golden stated that the staff will develop a disclosure that clearly identifies any nonfinancial items for which an entity chose to adopt Statement 157.

66. The Board decided to defer the effective date of Statement 157 for one year for all nonfinancial assets and nonfinancial liabilities, except for those items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The Board decided to issue an FSP to amend the effective date of Statement 157. Further, the Board agreed to a 30-day comment period.