

MINUTES



To: Board Members
From: Goodman (ext. 295)
Subject: Minutes of September 14, 2005 Board Meeting: Other-Than-Temporary Impairment
Date: September 19, 2005
cc: L. Smith, Bielstein, Petrone, Project Team, Golden, Polley, Gabriele, Carney, Mahoney, Intranet; IASB: Leisenring

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: Other-Than-Temporary Impairment

Basis for Discussion: Board memorandum dated September 8, 2005

Length of Discussion: 11:05 a.m. to 11:20 a.m.

Attendance:

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

Board members absent: None

Staff in charge of topic: Trench

Other staff at Board table: L. Smith, Golden, and Goodman

Outside participants: Leisenring

Summary of Decisions Reached:

The Board decided to include in the draft final FASB Staff Position (FSP) FAS 115-1, “The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments,” guidance similar to that provided in EITF Issue No. 03-1, “The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments,” regarding the accounting for debt securities subsequent to an other-than-temporary impairment. The Board also decided to add a footnote to clarify that the final FSP will not address when a debt security should be designated as nonaccrual or how to subsequently report income on a nonaccrual debt security. In addition, the Board decided that (1) the FSP would be applied prospectively and (2) the effective date would be reporting periods beginning after December 15, 2005.

Objective of Meeting:

The objective of the meeting was for the Board to consider whether to provide transition guidance in FSP FAS 115-1, and, if so, what type of transition should be permitted.

Matters Discussed and Decisions Reached:

1. Mr. Trench opened the meeting by stating that at the September 7, 2005 Board Meeting, the staff recommended that the Board provide transition guidance for the accounting for debt securities subsequent to an other-than-temporary impairment. He noted that some Board members believed that constituents could interpret this draft final FSP as eliminating the ability to place securities on nonaccrual status. He stated that in addition, those Board members asserted that (a) the perceived elimination of the nonaccrual approach would not be consistent with other existing GAAP and (b) not accreting income may be warranted under certain circumstances.
2. Mr. Trench stated that the Board deliberated several alternatives, including adding a footnote that would acknowledge that the draft final FSP was not intended to prevent the designation of certain securities as nonaccrual. He noted that the Board indicated that it did not want to deliberate as part of this project the need for guidance addressing when a nonaccrual designation may be appropriate.

3. Mr. Trench asked the Board to consider the following three views:
 - a. View A—Retain paragraph 14 of the draft final FSP while providing transition guidance, without mention of nonaccrual.
 - b. View B—Remove paragraph 14 of the draft final FSP and do not include transition guidance.
 - c. View C—Retain paragraph 14 and add a footnote which would clarify that the draft final FSP does not address when a debt security should be placed on nonaccrual status or how to subsequently report income on a nonaccrual debt security.
4. Mr. Golden stated that adopting View C—that is, View A with a footnote—could help avoid the perception that the draft final FSP might appear to prohibit designating a security as nonaccrual. He noted that the footnote communicates that the draft final FSP does not address when nonaccrual may be appropriate, rather than communicating that it was not intended to change the current accounting for securities designated as nonaccrual.
5. Ms. Seidman stated her preference for View C. She observed that a reasonable constituent could perceive View A as prohibiting the designation of a security as nonaccrual because in several other pieces of authoritative literature (for example, FASB Statement No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*, EITF Issue No. 99-20, “Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets,” and AICPA Statement of Position 03-3, *Accounting for Loans or Certain Debt Securities Acquired in a Transfer*), the Board or the EITF specifically addressed nonaccrual whereas View A would remain silent on it.
6. Mr. Herz stated that, in general, a security should not be designated as nonaccrual since its fair value already incorporates estimates about the cash flows. However, he noted that a nonaccrual designation may be appropriate under certain circumstances, such as for highly distressed debt, for which the only components of fair value may be

volatility and option value rather than expected cash flows. Therefore, he would not object to View C.

7. No Board member objected to View C (Messrs. Batavick and Young and Ms. Seidman stated that they preferred View C; Messrs. Crooch and Trott and Ms. Schipper stated that they preferred View A, but would not object to View C).

8. The Board agreed that (a) the transition would be prospective application with no provision for grandfathering and (b) the effective date would be for reporting periods beginning after December 15, 2005. Ms. Seidman clarified that the notion of grandfathering would apply only to the existing portfolio of securities.

9. Mr. Trench closed the meeting.

Follow-up Items:

None.

General Announcements:

The staff expects to post the final FSP to the website in early October.