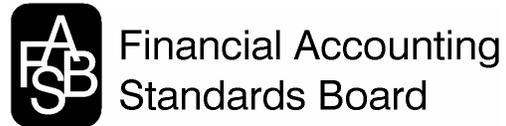


## MINUTES



**To:** Board Members

**From:** Benson (ext. 446)

**Subject:** Minutes of the September 13, 2006 Board Meeting: Proposed FSP FAS No. 141-b, 142-e, and 144-b, "Fair Value Measurements in Business Combinations and Impairment Tests" **Date:** September 21, 2006

**cc:** FASB: L. Smith, Bielstein, MacDonald, Fair Value Measurements Team, Business Combinations Team, Swift, McBeth, Leisenring (IASB), J. Nelson (IASB), Polley, Gabriele, Allen, Glotzer, Sutay, Carney, FASB Intranet; GASB: Attmore, Bean

*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:** Proposed FSP FAS No. 141-b, 142-e, and 144-b, "Fair Value Measurements in Business Combinations and Impairment Tests"

**Basis for Discussion:** Board Memorandum dated September 8, 2006

**Length of Discussion:** 10:15 to 10:45 a.m.

**Attendance:**

Board members present: FASB: Herz, Batavick, Crooch, Linsmeier, Seidman, Trott, and Young  
IASB: Leisenring

Board members absent: None

Staff in charge of topic: Stevens

Other staff at Board table: Smith, Lott, Todorova, and Benson

### **Summary of Decisions Reached:**

The Board decided to proceed with the exposure of proposed FASB Staff Position (FSP) FAS No. 141-b, 142-e, and 144-b, "Fair Value Measurements in Business Combinations and Impairment Tests." The proposed FSP would clarify the existing guidance regarding fair value measurements in FASB Statements No. 141, *Business Combinations*, No. 142, *Goodwill and Other Intangible Assets*, and No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. The proposed FSP would be effective until the reporting entity adopts the Fair Value Measurements Statement. The proposed FSP will be posted for a 30-day comment period.

### **Objective of Meeting:**

The objective of the meeting was for the Board to decide whether the staff should proceed to a preballot on the proposed FSP. The objective of the meeting was met.

### **Matters Discussed and Decisions Reached:**

1. Mr. Stevens began the discussion by describing the purpose of the proposed FSP. The proposed FSP would specify that, in developing assumptions about the assumptions that market participants would use in pricing the asset or liability, the reporting entity would not need to undertake all possible efforts to obtain information about market participant assumptions. However, the reporting entity should not ignore information about market participant assumptions that is reasonably available without undue cost and effort. The proposed FSP would be effective until the reporting entity adopts the final Statement on Fair Value Measurements. Mr. Stevens asked the Board for an indication to proceed to a preballot on the proposed FSP, which would be posted for a 30-day comment period.
2. Mr. Batavick noted that the wording of the proposed FSP is similar to the wording of the Fair Value Measurements Statement. Mr. Stevens responded that there are similarities between the proposed FSP and the Fair Value Measurements Statement because some of the guidance in the forthcoming Statement also clarifies certain of the existing requirements in Statements 141, 142, and 144. For example, the Fair Value Measurements Statement clarifies that the reporting entity need not undertake all possible efforts to obtain information about market participant assumptions; however, it should not ignore information that is reasonably available. The proposed

FSP would make this clarification to the existing language in Statements 141, 142, and 144. However, the proposed FSP differs in a number of respects from the Fair Value Measurements Statement. The forthcoming Statement clarifies that fair value is an exit value, discusses the inputs to fair value measurements, assigns levels to those inputs based on the degree of observability, and requires the inclusion of a risk premium in a fair value measurement; whereas the proposed FSP does not address such changes.

3. Mr. Batavick stated that a period of confusion may ensue if the Board issues the proposed FSP as an intermediate step between the current implementation of guidance in Statements 141, 142, and 144 and subsequent implementation of the new guidance in the Fair Value Measurements Statement. He asserted that the Board should consider taking no action and allow auditors, preparers, and regulators to deal with current confusion until the Fair Value Measurements Statement is adopted. Mr. Smith suggested that the Board expose the proposed FSP and allow constituents to comment on the helpfulness of the proposed FSP. Once comments are received, the Board will better understand whether the proposed FSP will reduce or increase confusion.
4. Mr. Linsmeier stated that the issue of whether or not the Board issues an FSP was addressed at the prior Board meeting. At that time, it was decided that the prior Board deliberations reduced confusion for a certain number of companies, but there may still be possible confusion for a majority of constituents who do not interact with the Board on a regular basis. As such, the Board decided to take an active step in issuing the FSP as opposed to taking no action other than the issuance of the new Statement.
5. Ms. Seidman stated that the possible confusion of the majority of constituents Mr. Linsmeier referenced is the reason she voted for a deferred effective date for the Fair Value Measurements Statement. She believes that there is a need for constituent education concerning the guidance in the Fair Value Measurements Statement. Exposing a proposed FSP as an intermediate step will absorb the resources that would have otherwise been devoted to implementation of the new Standard. She does not believe the new FSP will be beneficial enough in the interim to justify detracting attention from implementation of the new Standard.

6. Mr. Stevens summarized the main points of the proposed FSP. First, the proposed FSP would acknowledge the confusion that may have resulted from certain existing language in Statements 141, 142, and 144. Second, the proposed FSP would amend the language in Statement 141 to clarify that the measurement attributes used in the allocation of purchase price in a business combination is not always fair value; rather, the measurement attribute should be determined based on the allocation guidance in paragraph 37 of Statement 141. Third, the proposed FSP would clarify the *existing* requirement in Statements 141, 142, and 144 to reflect market-participant assumptions in a fair value measurement (unless those assumptions are not available without undue cost and effort) by clarifying that the reporting entity must adjust its own assumptions if information is reasonably available indicating that market participants would use different assumptions. For example, if the reporting entity is aware that its intended use of an asset is unique, it would not be permitted to ignore that information in a fair value measurement. Given the limited scope of the proposed FSP, which would clarify existing requirements only, Mr. Stevens questioned why new confusion would arise due to the issuance of the proposed FSP.
7. Ms. Seidman stated that possible confusion may arise with constituents who find the guidance in the proposed FSP new and different than their current accounting treatment. She believes that in such cases, the implementation will be more effective if constituents switch to using *all* of the concepts in the Fair Value Measurements Standard once that Standard is issued instead of implementing guidance in an interim FSP.
8. The Board agreed to issue the proposed FSP (four Board members agreed; three did not (GJB, LFS, RHH)). Mr. Herz noted his concern that the proposed FSP will require constituents to implement an intermediate form of fair value before implementing the true Fair Value Measurements Statement.

**Follow-up Items:**

The staff will proceed to a preballot of the proposed FSP.

**General Announcements:**

None.