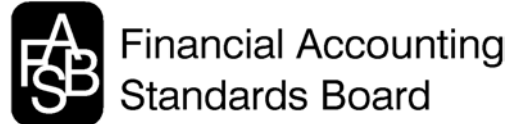


MINUTES



To: Board Members

From: Derivatives Implementation Team
(N. Stell, ext. 211)

Subject: Minutes of the March 26, 2003 Board Meeting **Date:** March 31, 2003

cc: Leisenring, Smith, Bielstein, Cassel, Derivatives Implementation Team, Financial Instruments Team, Swift, Polley, Petrone, Vincent, FASB Intranet (e-mail)

Topic: Derivatives Implementation: Revisions and Clearance of Statement 133 Implementation Guidance

Basis for Discussion: Board memorandum dated March 19, 2003

Length of Discussion: 1:30 p.m. to 2:30 p.m.

Attendance:

Board members present: Herz, Schipper, Foster, Crooch, Wulff, and Schieneman

Board members absent: Trott (who did not participate by phone for this portion of the meeting)

Staff in charge of topic: Wilkins

Other staff at Board table: Lusniak, Lynn, Martin, Smith, and Stell

Outside participants: Leisenring (IASB)

Summary for ACTION ALERT:

At its March 26, 2003 meeting, the Board discussed the staff's proposed revisions to a number of Statement 133 Implementation Issues related to FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*.

The Board reached the following decisions:

1. Did not object to the staff's recommendation to post Statement 133 Implementation Issue No. C18, "Shortest Period Criterion for Applying the Regular-Way Security Trades Exception to When-Issued Securities," as cleared guidance on the FASB website.
2. Agreed that the cleared guidance in Statement 133 Implementation Issues No. C7, "Certain Financial Guarantee Contracts," and No. J12, "Intercompany Derivatives and the Shortcut Method," will be superseded by the forthcoming amendment of Statement 133.
3. Agreed that the uncleared guidance in the following issues should be withdrawn due to the forthcoming amendment of Statement 133:
 - Statement 133 Implementation Issue No. A20, "Application of Paragraph 6(b) regarding Initial Net Investment"
 - Statement 133 Implementation Issue No. C19, "Contracts Subject to Statement 35, Statement 110, or Statement of Position 94-4"
 - Statement 133 Implementation Issue No. D2, "Applying Statement 133 to Beneficial Interests in Securitized Financial Assets (a Resolution of the Issues Raised in Implementation Issue D1)"
 - Statement 133 Implementation Issue No. E21, "Continuing the Shortcut Method after a Purchase Business Combination."
4. Did not object to the staff's proposed revisions to a number of other Statement 133 Implementation Issues or to the staff's plans to post the revised issues on the FASB website concurrent with the issuance of the amendment of Statement 133, which is expected in late April 2003.

The Board also discussed the need for implementation guidance regarding its previous decision that if a derivative instrument contains a financing element at its inception, the borrower should report all cash inflows and outflows associated with that derivative instrument in a manner consistent with financing activities as described in paragraphs 18–20 of FASB Statement No. 95, *Statement of Cash Flows*. During that discussion, the Board agreed that the requirement should apply only if an other-than-insignificant financing element is present at inception.

Matters Discussed and Decisions Reached:

Same as Summary for ACTION ALERT, as described above. With respect to the new cash flow reporting requirement for a derivative instrument that contains a financing element at its inception, the Board also discussed creating a scope exception from that requirement. The proposed exception would have applied to a derivative instrument that contains an option contract (such as an interest rate swap with a capped floating-rate leg) and for which no payment of the option premium is made to the writer of the option at inception because the remaining terms of the derivative instrument have been adjusted to result in the premium being received over the life of the derivative instrument (thus making the derivative instrument off-market). The Board decided that no such scope exception was warranted.

Follow-up Items:

None.

General Announcements:

None.