

MINUTES



To: Board Members
From: Benson (ext. 446)
Subject: Minutes of the August 30, 2006
Board Meeting: Proposed FSP on Measurement of Certain Nonfinancial Assets
Date: September 5, 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 on the Measurement of Certain Nonfinancial Assets

Basis for Discussion: Board Memorandum dated August 18, 2006

Length of Discussion: 9:15 to 10:15 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, MacDonald, Lott, Todorova, and Benson

Summary of Decisions Reached:

The Board decided that an FASB Staff Position (FSP) should be drafted to 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. Upon adoption of the fair value measurements Statement, the guidance therein would be applied in the circumstances addressed by the proposed FSP. The proposed FSP would not require application of the provisions of the fair value measurements Statement prior to a reporting entity's adoption of that Statement.

Objective of Meeting:

The objective of the meeting was for the Board to decide how to address practice issues regarding the measurement of nonfinancial assets that are required to be measured at fair value in business combinations and impairment evaluations. The objective of the meeting was met.

Matters Discussed and Decisions Reached:

1. Mr. Stevens began the discussion by describing potentially ambiguous wording in Statements 141, 142, and 144 regarding the assumptions used in fair value measurements (that is, market participant assumptions versus entity-specific assumptions). Mr. Trott noted that EITF Issue No. 02-17, "Recognition of Customer Relationship Intangible Assets Acquired in a Business Combination," provides guidance concerning the need to consider market participant data. Mr. Stevens indicated that this synopsis was simply intended to describe the potentially ambiguous wording in Statements 141, 142, and 144 that may have contributed to existing diversity in practice. Ms. Seidman added that EITF Issue No. 02-7, "Unit of Accounting for Testing Impairment of Indefinite-Lived Intangible Assets," provides guidance that considers the reporting entity's own plans, rather than a market participant view.
2. Mr. Herz stated that the definitions of fair value used in Statements 141, 142, and 144 are different than the definition used in the proposed fair value measurement Statement. The proposed Statement clarifies the need to use an exit price in

determining fair value, whereas the existing standards seem to permit the use of entry or exit prices. Mr. Leisenring responded that the current constituent confusion articulated by the staff concerns whether entities are using the correct objectives to determine fair value as defined in Statements 141, 142, and 144. Mr. Herz agreed with Mr. Leisenring and noted that the fair value measurement project was undertaken to clarify and refine the definition of fair value.

3. Mr. Stevens stated that the first question for the Board was whether the proposed FSP should (a) permit entities to use their own assumptions in measurements of certain nonfinancial assets during the periods that the proposed FSP would be effective or (b) require that, for measurements after the effective date of the proposed FSP, fair value be based on market participant assumptions to the extent possible. He added that the Board should also consider whether or not an FSP is necessary at all. Mr. Trott asked Mr. Stevens his opinion concerning the result of not issuing an FSP. Mr. Stevens responded that the nonissuance of an FSP would likely result in the continuation of current practice until the adoption of the fair value measurement Statement. Mr. Trott asked if nonissuance would allow companies to use entity-specific data without looking for market participant data. Mr. Smith responded that an FSP may add to entities' current confusion regarding fair value measurement instead of decreasing confusion. If the Board decides to issue an FSP, it would be best to have that FSP apply only until entities adopt the fair value measurement Statement. Regarding Mr. Trott's concern that companies will use entity-specific data, Mr. Smith stated that the Board has added clarity to the existing standards through Board discussions. As such, people will now look more diligently to market participant data before using entity-specific data because of increased awareness of the existing guidance in Statements 141, 142, and 144.
4. Ms. Seidman stated that one of the criteria for adding a Board project to the agenda is whether there is a technically feasible solution. In this case, the fair value measurement Statement is the technically feasible solution. Ms. Seidman expressed concern that the Board would effectively be requiring early implementation of certain aspects of the proposed fair value measurements Statement if an FSP were issued. Ms. Seidman asserted that she would not support issuing an FSP that would require such early implementation. She agreed to a one-year delay of the effective date on the fair value measurement Statement to allow for an educational process with constituents, importantly nonfinancial organizations that might not have been

following the redeliberations closely. She noted that the Board must decide whether immediate clarification of the ambiguity is necessary, or whether it is sufficient to wait for the issuance of the fair value measurement Statement. Mr. Linsmeier stated that if the ambiguity remains until companies adopt the proposed fair value measurement Statement, clarification will be the responsibility of auditors and regulators until adoption of the proposed Statement.

5. Mr. Trott asked Board members to state whether they believe that the fair value measurement guidance articulated in Statements 141, 142, and 144 requires the use of market participant data and an effort to look for contrary information to adjust entity-specific data. Ms. Seidman responded that the Board had previously noted that ambiguity exists within different standards concerning fair value measurement. Mr. Herz agreed with Ms. Seidman. Mr. Trott asked if the Board believes that waiting two years until the effective date of the proposed fair value measurement Statement is adequately responsive to current confusion. Ms. Seidman responded that the practical effect of issuing an FSP may be early implementation. Mr. Trott disagreed, noting that the Board has been clear that it does not intend to force early implementation with the issuance of the FSP. Further, he asserted that the ambiguity should not be allowed to continue.
6. Mr. Leisenring stated that he believes there is no ambiguity as to the objective of fair value measurement in the existing standards as long as one acknowledges that the objective is not solely exit price. Mr. Herz noted that it is not clear in the existing standards when an entity must use its own assumptions. Mr. Batavick added that an FSP clarifying the ambiguity in current standards would, in fact, use the fair value measurement objective of the proposed Statement. Thus, an FSP should not be issued. He believes there is ambiguity in the current standards, but constituents are currently improving their understanding of fair value measurement. As such, an FSP should not be issued as an interim clarification before the issuance of the proposed fair value measurement Statement.
7. Mr. Linsmeier stated that it is necessary for entities to look for market participant information in a fair value measurement. There is some ambiguity in current statements concerning the term *undue cost and effort* and the amount of effort that must be undertaken before entity-specific assumptions may be used in a fair value measurement. The Board could issue an FSP that explains that entities must look

for market participant information if it is available without undue cost and effort. Such an FSP would not discuss the changes between Statements 141, 142, and 144 and the new fair value measurement Statement, such as whether fair value is an exit or entry price or solely an exit price and whether a risk adjustment is required. Rather, the FSP would simply clarify the language in the existing standards. The clarification would concern the use of market participant data unless there is undue cost and effort, in which case entity-specific data may be used. Mr. Linsmeier noted that the education process undertaken in the last few weeks and the current actions of auditors and regulators should result in more consistent application of the standards, specifically concerning the undue cost and effort requirement for using entity-specific data. Auditors and regulators understand the statements better now because of previous Board discussions. Mr. Herz responded that he believes only large public companies have gained a better understanding of fair value measurement from the previous Board discussions, and that the Board has a responsibility to educate a much broader constituency than solely large public companies.

8. Mr. Smith noted that there is at least some confusion currently regarding application of existing standards to fair value measurement. Mr. Smith and Ms. MacDonald suggested that the Board should issue an FSP that will accomplish the education process highlighted by Mr. Herz. Ms. MacDonald proposed that Statements 141, 142, and 144 be amended to state that when using entity-specific data, a reporting entity does not need to look for all possible market data. However, a reporting entity should not ignore any market data that is reasonably available without undue cost and effort in the(se) circumstances. Ms. MacDonald stated that such a clarification will add to the phrase “an entity may use its own assumptions,” which is currently in the existing standards. Mr. Smith asserted that such a Statement will address Mr. Trott’s concern that if the Board issues nothing, people may interpret the statements in whichever way they want. In addition, it would address Mr. Herz’s concern that a wide-spread education effort must take place. Mr. Smith asked the Board if such an approach seems reasonable. Ms. Seidman stated that her initial reaction was that such an approach might be reasonable if it is prospective and does not include prescriptive guidance that might need the broader context of the fair value measurement Statement to be understandable. Mr. Smith suggested the staff draft a proposed FSP clarifying the necessity of undue cost and effort for an entity to use its

own assumptions and present it to the Board for discussion at an upcoming Board meeting.

9. Mr. Young asked for an indication of the objective of the proposed FSP. Mr. Smith responded that the FSP will make people aware of what was intended by the literature when Statements 141, 142, and 144 were written. The purpose of the FSP will be to eliminate current confusion and emphasize that entities must consider market participant data unless such information is not available without undue cost or effort. Mr. Linsmeier emphasized that such an FSP will not result in early adoption of the new fair value measurement Statement; rather, it will clarify Statements 141, 142, and 144. He noted that the language causing confusion within the existing Statements concerning the term *fair value* should be eliminated.
10. The Board indicated that the staff should develop the proposed FSP. Mr. Stevens inquired whether the proposed FSP should include a clarification regarding circumstances in which market participant data is unavailable and an entity decides to use its own data. Specifically, he asked if the FSP should explicitly state that if an asset has defensive value or will be used for a limited period of time prior to abandonment, an entity should not default to an asset value of zero. Ms. Seidman reiterated her concern about including prescriptive guidance that might need elaboration that is based on the fair value measurement Statement. Mr. Smith suggested that the staff include such a statement in the draft of the proposed FSP for the Board's consideration.

Follow-up Items:

The staff will draft a proposed FSP and present it to the Board at a future meeting.

General Announcements:

None.