

MINUTES



To: Board Members
From: Hansen (ext. 298)
Subject: Minutes of June 29, 2005 Board Meeting, Proposed FSP EITF 03-1-a **Date:** July 5, 2005
cc: Smith, Bielstein, Petrone, Golden, Lott, Gabriele, Leisenring, Thompson, Getz, Carney, Swift, Polley, Mahoney, Laurenzano, Belcher, Trench, Vernuccio, 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: Proposed FSP EITF 03-1-a

Basis for Discussion: Board Memorandums dated June 17, 2005 and June 29, 2005

Length of Discussion: 1:20 p.m. to 1:50 p.m.

Attendance:

Board members present:	Herz, Batavick, Crooch, Schipper, Seidman, Trott, Young
Board members absent:	None
Staff in charge of topic:	McBride
Other staff at Board table:	Smith, Golden, Trench, Hansen
Outside participants:	None

Summary of Decisions Reached:

The Board decided to not provide additional guidance on the meaning of other-than-temporary impairment, but directed the staff to issue proposed FSP EITF 03-1-a, “Implementation Guidance for the Application of Paragraph 16 of EITF Issue No. 03-1,” as final. The final FSP will supersede EITF Issue No. 03-1, “The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments” and EITF Topic No. D-44, “Recognition of Other-Than-Temporary Impairment upon the Planned Sale of a Security Whose Cost Exceeds Fair Value.” The final FSP (retitled FSP FAS 115-1, “The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments”) will replace the guidance set forth in paragraphs 10-18 of Issue 03-1 with references to existing other than temporary impairment guidance, such as FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, SEC Staff Accounting Bulletin 59, *Accounting for Noncurrent Marketable Equity Securities*, and APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*. FSP FAS 115-1 will codify the guidance set forth in EITF Topic D-44 and clarify that an investor should recognize an impairment loss no later than when the impairment is deemed other-than-temporary, even if a decision to sell has not been made. The Board directed the staff to proceed to a draft of a final FSP for vote by written ballot.

The Board decided that FSP FAS 115-1 would be effective for other-than-temporary impairment analysis conducted in periods beginning after September 15, 2005.

Objective of Meeting:

The objective of the meeting was to decide whether to issue FSP FAS 115-1 and determine whether to provide additional guidance on the meaning of other-than-temporary impairment. The objective of the meeting was accomplished.

Matters Discussed and Decisions Reached:

1. Mr. McBride opened the meeting by providing a brief background on Issue 03-1 and proposed FSP 03-1-a. He explained that although the comment period on FSP 03-1-a ended on October 29, 2004 and the staff completed its analysis of the comment letters in

December 2004, the staff delayed taking its analysis to the Board for deliberation since the Board was asked to consider proposed projects that could have obviated the need for further consideration of the other-than-temporary impairment model. He reported that the staff decided to move forward on the deliberations of proposed FSP Issue 03-1-a because the Board did not add any of those proposed projects to its agenda.

2. Mr. McBride summarized the comment letters received for proposed FSP EITF 03-1-a by explaining that while some constituents provided feedback on the implementation guidance provided by the Board, most constituents took the opportunity to request that the Board rescind Issue 03-1. He stated that constituents requested that the Board rescind Issue 03-1 based on their belief that:

- a. Issue 03-1 would be an amendment to Statement 115
- b. Issue 03-1 would produce anomalous results for interest rate impaired debt securities
- c. Issue 03-1 would place a heavy burden on preparers
- d. Issue 03-1 would not converge with IAS 39
- e. Issue 03-1 would fundamentally change current risk management practices for entities such as banks and insurance companies.

3. Mr. McBride stated that the staff does not agree with all of the concerns raised by constituents, but the staff believes that clarification of the meaning of other-than-temporary impairment beyond that provided in FSP 03-1-a would be necessary to address several operational issues raised by constituents. He stated that the staff considered alternative approaches to defining the meaning of other-than-temporary impairment. He said that the staff believes the approach that would resolve most of the diversity in practice associated with other-than-temporary impairment, while also improving financial reporting, is the elimination of the available-for-sale designation under Statement 115. Mr. McBride noted, however, that the conditions that gave rise to the creation of the available-for-sale designation continue to exist today and, therefore, eliminating the available-for-sale designation may not be the best approach at this time.

4. Mr. McBride reported that the staff considered changes to Issue 03-1 that would alleviate some of the practical effects that the application of Issue 03-1 could have on a

preparer—such as presumptive impairments and lower of cost or market accounting model for available-for-sale investments. He stated that the staff believes that the result of clarifying Issue 03-1 would result in guidance that is substantially similar to SAB 59. Mr. McBride stated that the staff recommends that the Board not provide guidance on the meaning of other-than-temporary impairment, but that the Board direct the staff to issue a final FSP that replaces the guidance set forth in paragraphs 10-18 of Issue 03-1 with references to existing other-than-temporary impairment guidance. He stated that the staff also recommends that the final FSP codify the guidance set forth in EITF Topic D-44, but that the Board clarify that an investor should recognize an impairment loss no later than when the impairment is deemed other-than-temporary, even if a decision to sell has not been made.

5. The Board unanimously agreed with the staff recommendation. However, Mr. Trott stated that he does not agree with the assertions made by constituents as reasons for nullifying Issue 03-1. He noted that Statement 115 explicitly requires the recognition of other-than-temporary impairments. Issue 03-1 was attempting to provide operational guidance for how to apply the (already required) other-than-temporary impairment recognition in Statement 115. He believes, however, that the Board should be spending its time on other issues that are in need of attention, such as, the fair value measurement model, liabilities and equity, and revenue recognition. Mr. Trott stated that the revised FSP should reflect a revised Issue 03-1 replacing the discussion of step 2 with references to already existing literature. He further stated that he believes that what was proposed in Issue 03-1 should have been capable of being applied and was a faithful attempt to deal with other-than-temporary impairment. However, he noted that our constituents want more guidance in this area.

6. Ms. Schipper agreed that the Board should not focus its efforts on repairing FASB Statement 115 for the same reasons provided by Mr. Trott, but noted that her first choice would be to revisit the available-for-sale classification. She noted that the fair value option project is going to allow entities to irrevocably designate, instrument by instrument, at inception, items to be measured at fair value with changes through earnings, which would no longer allow an entity to carry an instrument at fair value on the balance sheet without recognizing gains and losses in the income statement. She

summarized that the fair value option project is inconsistent with the notion that some items are trading, some items are held-to-maturity, and some items are available-for-sale. Ms. Schipper stated that these separate classifications cause repeated difficulties in implementation and interpretation, so there is an even more pressing need now to eliminate the available-for-sale classification. Messrs. Herz, Batavick, Crooch, and Ms. Seidman generally agreed with the comments made by Ms. Schipper and Mr. Trott.

7. Mr. McBride stated that substantially all of the guidance in the final FSP is currently in effect. He noted that the only incremental guidance that is not currently explicitly required is the subsequent accounting for impaired debt securities which had been provided in paragraph 20 of Issue 03-1. He reported that that guidance required the application of AICPA Statement of Position 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*. He stated that the staff believes that the approach set forth in SOP 03-3 is consistent with Issue 03-1; therefore, the staff believes that the final FSP does not require reexposure.

8. Mr. McBride stated that the staff recommends that the final FSP be effective for other-than-temporary impairment analysis conducted in periods beginning after September 15, 2005. He reported that the staff expects to release the final FSP in July.

9. The Board unanimously agreed with the staff's recommendation.

Follow-up Items:

None

General Announcements:

None