MINUTES

FASB Financial Accounting
Standards Board

To: Board Members

From: Salo, ext. 312

Subject: Minutes of May 12, 2004 Board   **Date:**   June 4, 2004
Meeting

cc: Bielstein, Smith, Petrone, Polley, Swift, Leisenring, Sutay, Thompson,
Gabriele, Intranet, Project Team

Topic: Derivatives and Hedging: Agenda Decision
regarding Request to Be Able to Bifurcate
Hedged Risks for Nonfinancial Assets and
Liabilities

Basis for Discussion: Memorandum dated May 11, 2004

Length of Discussion: 10:30 a.m. to 10:45 a.m.

Attendance:

    Board members present: Herz, Batavick, Crooch, Schieneman,
Schipper, Seidman, Trott

    Board members absent: None

    Staff in charge of topic: Wilkins

    Other staff at Board table: L. Smith, Golden, Laurenzano, Salo

    Outside participants: None

Summary of Decisions Reached:

The Board discussed requests from constituents to add a project to amend FASB
Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities,*
to permit the bifurcation of risks for both fair value and cash flow hedge
accounting related to nonfinancial assets.   The Board unanimously agreed not to

add a project to the Board's technical agenda at this time to amend Statement 133 to permit the bifurcation of risks for both fair value and cash flow hedge accounting related to nonfinancial assets. The majority of Board members also expressed a preference to consider this issue a high priority for the Board to discuss in a future coordinated project.

Objective of the Meeting:

The objective of the meeting was for the Board to decide whether it should add a project to amend Statement 133 to permit the bifurcation of risks for both fair value and cash flow hedge accounting related to nonfinancial assets.

Matters Discussed and Decisions Reached:

Mr. Wilkins began the discussion by stating that this meeting was a continuation of the May 5, 2004 Board meeting in which the Board initially discussed requests from constituents to enable a hedging entity to bifurcate risk with respect to nonfinancial items. He stated that since that meeting, the staff has spoken with the original authors of the agenda request letter to further discuss certain issues, as requested by the Board. Mr. Wilkins also stated that at the May 10, 2004 liaison meeting with the American Petroleum Institute (API) Risk Control Committee, a similar request was put forth. He stated that the Board memorandum reflects both the conversation with the original constituents and the discussions with the API.

Mr. Wilkins stated that staff has not changed its recommendation that the Board not add this project to the Board's agenda. The fundamental reason behind the staff recommendation is that the staff does not believe it would be prudent to widen the current diversity between Statement 133 and IAS 39, *Financial Instruments: Recognition and Measurement*. Also, Mr. Wilkins stated that if the Board was to permit this type of bifurcation, the project would have to develop specific guidance and express with greater specificity what risks would be eligible, which would broaden the scope of the project.

Ms. Schipper stated that she is sympathetic to the amendment request issue but believes that even if the Board agreed that some nonfinancial items behave like financial instruments with respect to the pricing effects of components, the

difficulty lies in how the Board would describe the class of items. She stated that it would be difficult to describe this new class of items without opening up the entire premise for hedge accounting, because these nonfinancial items must be described by analogy to financial items. She agrees with the staff recommendation because she believes that this issue is broad and cannot be narrowly defined. Ms. Schipper stated that this is an important issue, but it should be discussed in the future when the Board is willing to take on a project to reconsider hedge accounting in its entirety.

Messrs. Trott, Crooch, and Batavick agreed with Ms. Schipper's analysis and the staff recommendation. They did not express support for delving into a broad Statement 133 issue at this time and instead stated a preference for discussing this issue as part of a future convergence and improvement project.

Mr. Schieneman and Ms. Seidman also stated that they believe the issues raised in the request are valid. Ms. Seidman stated that the concerns raised will not go away if and when financial instruments are recognized at fair value, as this is a case where hedge accounting would still be desired because there would still be a mismatch between the accounting for the derivative and the accounting for the nonfinancial item. They stated that the Board should monitor the issue and consider it a high priority for placement on the agenda in the future but should not currently add it as a project as the Board does not currently have the time to give it the thought and consideration it deserves.

Mr. Herz stated that he was troubled because this is a situation where Statement 133 and its related literature do not treat similar items similarly. He is particularly troubled by this situation because people could be engaged in prudent risk management and accounting for hedges in a way that matches their substance, but not qualify for hedge accounting. He stated that he was inclined to take on the project, even in the face of nonconvergence, but he would accept the staff recommendation with the understanding that the issue should be considered a high priority in the future.

Ms. Seidman suggested sharing this discussion and requests with the IASB to make them aware that the Board may want to reconsider this issue in the future.

Overall, the Board unanimously agreed not to add a project to the Board's technical agenda at this time to amend Statement 133 to permit the bifurcation of risks for both fair value and cash flow hedge accounting related to nonfinancial assets. The majority of Board members also expressed a preference to consider this issue a high priority for the Board to discuss in a future coordinated project.

Follow-up Items:

The objective of the meeting was met.

General Announcements:

None.