MINUTES

Financial Accounting Standards Board

To: Board Members

From: Mike Kramer, ext. 273

Subject: Minutes of the June 8, 2005 Board Meeting—Proposed FSP **Date:** June 16, 2005

cc: Bielstein, L. Smith, Golden, Petrone, Leisenring, Wilkins, Lott, Getz. Polley, Mahoney, Laurenzano, Belcher, Thompson, Gabriele, Sutay, 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.

Topics: Proposed FSP: Accounting for Fully Benefit-Responsive Investment Contracts by Certain Investment Companies

Basis for Discussion: Board memorandums dated May 25, 2005.

Length of Discussion: 10:30 a.m. to 11:00 a.m.

Attendance:

Board members present:	Herz, Batavick, Crooch, Schipper, Seidman, and Young
IASB Board/Staff present:	Leisenring
Board members absent:	Trott
Staff in charge of topics:	Belcher
Other Staff at Board table:	L. Smith, Golden, Laurenzano, Kramer, and Murphy
Outside Participants:	None

Summary of Decisions Reached:

The Board approved a change to the scope of the proposed FSP, *Accounting for Fully Benefit-Responsive Investment Contracts by Certain Investment Companies*, to remove the requirement that the employee has the primary responsibility for directing his or her own investment allocations with respect to the associated defined-contribution plan.

The Board approved a revised definition of the term *fully benefit-responsive* that differentiates between traditional guaranteed investment certificates (GICs) (where the issuer of the investment contract bears all of the interest rate risk) and synthetic GICs, which utilize a wrapper contract (where the fund itself bears the majority of the interest rate risk though adjustments to future crediting rates). The Board also decided that the high-credit quality criterion be removed from the definition of fully benefit-responsive and that it will instead impose a requirement that an investment contract should no longer be considered fully benefit-responsive if an event has occurred that may affect the realization of full contract value due to a decline in creditworthiness of the contract issuer or wrapper provider.

The Board approved a change in disclosure requirements so that the proposed FSP requires that (1) all investments and wrapper contracts are to be reported on the balance sheet at fair value, (2) a subtotal for net assets at fair value should be reported on the balance sheet, and (3) the "difference between net assets at fair value and net assets" should be presented on the balance sheet and calculated as the sum of the amounts necessary to adjust the portion of net assets attributable to all fully benefit-responsive investment contracts in aggregate from fair value to contract value.

The proposed FSP also requires a detailed disclosure that supports amounts presented on the balance sheet for the fair value of all investments and the adjustment from fair value to contract value for each investment contract, including the major credit ratings for each investment contract.

The Board approved that the guidance in the proposed FSP be effective for financial statements for annual periods ending after December 15, 2005. Earlier application is permitted. Retroactive application to prior period financial statements (if presented) would be required.

The proposed FSP will explicitly amend the guidance in AICPA Statement of Position 94-4, *Reporting of Investment Contracts Held by Health and Welfare Benefit Plans and Defined-Contribution Pension Plans*, with respect to the definition of fully benefit-responsive and the presentation and disclosure of fully benefit-responsive investment contracts. Amendments to SOP 94-4 will eventually be reflected in the AICPA Audit and Accounting Guide, *Employee Benefit Plans*.

The Board also agreed to amend paragraph 10(h) of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, to effectively remove the scope exception provided for fully benefit-responsive investment contracts reported for at contract value in accordance with SOP 94-4.

The Board approved the posting of the proposed FSP to the FASB's website for a 45-day comment period. The proposed FSP is expected to be posted within two weeks from the date of the meeting.

Objective of the Meeting:

The objective of the meeting was to discuss several issues regarding accounting for fully benefit-responsive investment contracts by certain investment companies. The topics included a change to the description of entities within the scope of the proposed FSP, a revised definition of fully benefit-responsive, revised presentation and disclosure requirements, effective date and transition provisions, and effect(s) on other existing authoritative literature. The objective of the meeting was met.

Matters Discussed and Decisions Reached:

1. Mr Belcher introduced the first topic. The staff removed the requirement in the proposed FSP that the employee has the primary responsibility for directing his or her own investment allocations with respect to the associated defined-contribution plan. The staff believes that the key element is that the fund was established pursuant to a qualified defined-contribution plan and therefore suggests removing this restriction that does not currently exist in practice at the plan level. Mr. Belcher asked the Board if it approves this change to the scope of the proposed FSP.

2. The Board agreed with no objections.

3. Mr Belcher introduced the second topic. The staff developed a revised definition of fully benefit-responsive that addresses concerns expressed by certain Board members and the SEC staff. The new definition differentiates between traditional GICs (where the issuer of the investment contract bears all of the interest rate risk) and synthetic GICs, which utilize a wrapper contract (where the fund itself bears the majority of the interest rate risk though adjustments to future crediting rates). The staff also recommended that the high-credit quality criterion be removed from the definition of fully benefit-responsive and that it will instead impose the requirement that an investment contract should no longer be considered fully benefit-responsive if an event has occurred that may affect the realization of full contract value due to a decline in creditworthiness of the contract issuer or wrapper provider. Mr. Belcher asked the Board if it approves these changes to the definition of fully benefit-responsive.

4. Mr. Young expressed concern that the definition is inaccurate because an investor pays contract value but receives an instrument with a different fair value. Ms. Schipper clarified that because the investor is required to transact at contract value, the fair value is not relevant. Mr. Golden felt that it was a drafting issue that can be dealt with afterward and the Board agreed.

5. The Board agreed with the revised definition with no objections.

6. Mr. Belcher introduced the third topic. Rather than require that all fully benefit-responsive investment contracts be reported on the balance sheet at contract value as discussed at the March 23 Board meeting, the proposed FSP should require that (a) all investments and wrapper contracts are to be reported on the balance sheet at fair value, (b) a subtotal for net assets at fair value should be reported on the balance sheet, and (c) the "difference between net assets at fair value and net assets" should be presented on the balance sheet and calculated as the sum of the amounts necessary to adjust the portion of net assets attributable to all fully benefit-responsive investment contracts in aggregate from fair value to contract value.

7. The proposed FSP also requires a detailed disclosure that supports amounts presented on the balance sheet for the fair value of all investments and the

adjustment from fair value to contract value for each investment contract, including the major credit ratings for each investment contract. An example disclosure is included in the proposed FSP. Mr. Belcher asked the Board if it approves this change to the presentation requirements.

8. The Board agreed with no objections.

9. Mr. Belcher stated that the proposed FSP incorporates certain modifications to the required footnote disclosures based on recommendations from the Board made at the March 23 Board meeting and the May 11 education session. He asked the Board if it approves the changes to the disclosure requirements as presented in the proposed FSP.

10. The Board agreed with no objections.

11. Mr. Belcher stated that the staff is proposing that the guidance in the proposed FSP be effective, subject to the special transition guidance for defined benefit plan investees, for financial statements for annual periods ending after December 15, 2005. Earlier application is permitted. Retroactive application to prior period financial statements (if presented) would be required.

12. Mr. Belcher asked the Board if it approves the transition and effective date provisions (including special transition guidance for defined benefit plan investees) as presented in the proposed FSP.

13. The Board agreed with no objections.

14. Mr. Belcher stated that the proposed FSP will explicitly amend the guidance in SOP 94-4 with respect to the definition of fully benefit-responsive and the presentation and disclosure of fully benefit-responsive investment contracts. Amendments to SOP 94-4 will eventually be reflected in the AICPA Audit and Accounting Guide, *Employee Benefit Plans*.

15. The staff believes it also is necessary for the FSP to amend paragraph 10(h) of Statement 133 to effectively remove the scope exception provided for fully benefit-responsive investment contracts reported for at contract value in accordance with SOP 94-4. This is because SOP 94-4, as amended by the proposed FSP, will require such contracts to be reported at fair value,

negating the need for the exception from the requirements of Statement 133. In addition, the staff recommended that the Board approve the posting of the proposed FSP to the FASB's website for a 45-day comment period.

16. The Board agreed with no objections.

Follow-up Items:

None.

General Announcements:

None.