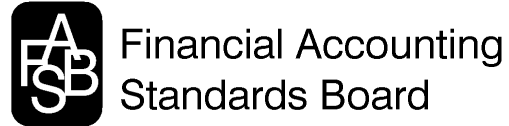


MINUTES



To: Board Members

From: Drum (ext. 296)

Subject: Minutes of the February 6, 2008 Board Meeting –Proposed FSP FAS157-b comment letter analysis **Date:** February 26, 2008

cc: Golden, Cospers, MacDonald, Bielstein, Leisenring, Chookaszian, Posta, Lott, McBeth, Gabriele, Allen, Klimek, Maples, Mayer, Stevens, Tully, Wyatt, C. Smith, Glotzer, Eastman (IASB), 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 FAS157-b comment letter analysis

Basis for Discussion: Board Memorandum 6 dated January 23, 2008

Length of Discussion: 9:10am – 9:30am.

Attendance:

Board members present: Herz, Batavick, Crooch, Linsmeier(via phone), Seidman, Smith and Young

Board members absent: None

Staff in charge of topic: Tully

Other staff at Board table: Golden, Drum, Wyatt, Maples, Cospers, Chesney, Stevens.

Outside participants:

Summary of Decisions Reached

The Board decided that:

1. Private companies should have the same deferral requirements as public entities.
2. Impaired loans measured at fair value based on the underlying collateral pursuant to the guidance in FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan*, will not be subject to the deferral.

The Board affirmed that providing guidance on the applicability of Statement 157 disclosures to impaired loans measured using the Statement 114 practical expedient is outside the scope of this project and that guidance should not be provided within the proposed FSP. The Board directed the staff to proceed to a draft of a final FSP for vote by written ballot.

Objective of Meeting

1. The purpose of the February 6, 2008 Board meeting was for the Board to consider the staff's analysis and recommendation of how to address the comment letters received on the proposed FASB Staff Position (FSP) FAS 157-b, *Effective Date of FASB Statement No. 157* and whether to proceed to drafting a final FSP.

The objectives were met.

Matters Discussed and Decisions Reached

2. Mr. Tully stated that on November 14, 2007, the Board approved a one-year deferral of the effective date of FASB Statement No. 157, *Fair Value Measurements*, for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The comment period for the proposed FSP began on December 14, 2007, and ended on January 16, 2008. As of January 28, 2008, the staff received comment letters from 20 respondents. Of the 20 comment letters, 17 respondents supported the proposed FSP, while 3 did not. Further, 10 respondents specifically indicated that they would have preferred a full deferral. Two respondents indicated that a partial deferral adds unnecessary complexity. Of the comments received, the staff believes that there are two substantive issues that require further Board deliberation.

3. Mr. Tully stated that the first substantive issue relates to application to private issuers. Two comment letters were received that expressed their position that Statement 157's effective date should be fully deferred for private or small issuers.
4. Mr. Herz noted that some private issuers prepare financial statements to be presented to lenders during interim periods, but only prepare audited financial statements at year end. He suggested that one alternative could be to require deferral until the first annual statement. Mr. Herz also stated that because of the number of private financial institutions, application of Statement 157 to financial assets and liabilities is very important.
5. Mr. Tully stated that this type of provision could be seen as adding unnecessary complexity.
6. Ms. Cospers added that this type of deferral would have the effect of creating a two year deferral for private issuers.
7. Mr. Smith suggested another alternative that would allow private entities to disclose that the financial statements provided at interim periods are only reflective of accounting pronouncements through a certain date.
8. Ms. Seidman noted that some private entities do issue interim financial information, and if they don't apply Statement 157 until the next annual reporting period, the annual financial statements may not be the sum of the interim. She stated that she disagrees with a different deferral for private entities. Mr. Linsmeier agreed.
9. The Board agreed with the staff's recommendation that private companies should have the same deferral requirements as public entities.
10. Mr. Tully stated that the second substantive issue whether collateral dependent loans measured for impairment using the practical expedient in Statement 114 is financial assets, and thus, it would be excluded from the scope of the deferral. He stated that there are two views related to this issue:

- a. VIEW A: Proponents believe that the impaired loan is a financial asset. Paragraph 6 of Statement 159 defines a financial asset as one which includes a contract that conveys to one entity a right to receive cash or another financial instrument from a second entity. Proponents believe that this right to receive cash also includes the right to receive cash from the sale of collateral in a defaulted loan. Further, they believe that in the current credit environment, the consistency, comparability, and transparency that Statement 157 provides to users is important.
- b. VIEW B: Proponents believe that while the asset being recognized is the loan, the recognition of that impaired loan is typically based entirely on the fair value of a nonfinancial asset. View B proponents believe that if the holder of the loan were to sell the loan at the measurement date, they would not receive an amount equal to the fair value of the underlying collateral. This is because a market participant would require to be compensated for the risk being assumed as well as anticipated foreclosure costs in order to obtain rights to the collateral.

11. Mr. Tully stated that the staff recommends that impaired loans measured at fair value based on the underlying collateral pursuant to the guidance in Statement 114 should not be subject to the deferral.

12. Mr. Herz noted that some constituents are of the view that if a practical expedient is used to value a loan, the result is not the true fair value of the loan and therefore the provisions of Statement 157 do not apply.

13. Ms. Seidman questioned whether other practical expedients (such as, within FIN 45) are considered fair value measurements for purposes of applying fair value disclosures. Mr. Smith responded that he believes the practical expedients do qualify as fair value measurements. She stated that she is of the view that FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments* would apply to all loans and that any practical expedient would satisfy the Statement 107 disclosure requirements. She stated that she would expect a consistent measurement between

Statement 107 and Statement 157. Finally, she concluded that practical expedients should be considered within the scope of Statement 157.

14. Mr. Batavick proposed a scenario where an entity measuring two similar nonfinancial assets that require fair value accounting: one used in the normal course of business and one pledged as collateral on an impaired loan. He questioned whether the result of this decision could lead to two different values for the similar assets. Mr. Smith and Mr. Herz agreed that this might be a result.
15. Mr. Tully stated that the follow-up question posed by the respondent is whether the disclosure requirements pursuant to Statement 157 are required for loans measured using the Statement 114 practical expedient, in particular, the nonrecurring disclosure requirements described in paragraph 33 of Statement 157.
16. The Board agreed that the nonrecurring disclosure requirements in Statement 157 do apply when using the Statement 114 practical expedient.
17. The Board directed the staff to proceed to a draft of a final FSP for vote by written ballot.

Follow-up Items:

None.

General Announcements:

None.