

MINUTES



To: Board Members

From: FVM Team (Murphy, ext. 208)

Subject: Minutes of the October 12, 2005 Board Meeting: Final Issues relating to Proposed FSP 133-a and Fair Value Measurement Statement Staff Draft **Date:** October 18, 2005

cc: Bielstein, L. Smith, Petrone, Fair Value Team, Revenue Recognition Team, Vernuccio, Polley, Gabriele, Carney, Getz, Mahoney, Sutay, Leisenring (IASB), P. Martin (CICA), J. Nelson (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 133-a and Fair Value Measurement (FVM) Statement Staff Draft—Final Issues

Basis for Discussion: Memorandum dated October 10, 2005 and Board meeting handout (attached)

Length of Discussion: 9:30 a.m. to 9:45 a.m.

Attendance:

Board members present: **FASB:** Batavick, Crooch, Herz, Schipper, Seidman, Trott, and Young

Board members absent: None

Staff in charge of topic: Thuener

Other staff at Board table: MacDonald, Bergstrom, L. Smith, and Todorova

Outside participants: None

Summary of Decisions Reached:

The Board clarified certain of its previous decisions relating to the proposed FASB Staff Position (FSP) FAS 133-a, "Accounting for Unrealized Gains (Losses) Relating to Derivative Instruments Measured at Fair Value under Statement 133."

Specifically:

1. The Board decided not to require disclosure of the fair value of the derivative instrument at initial recognition. Therefore, the proposed FSP will require disclosures about unrealized gains (losses) at initial recognition of the derivative instrument, segregating unrealized gains (losses) recognized in income and those recognized as a deferred credit (debit). The proposed FSP also will require a reconciliation of the beginning and ending deferred balance(s) during the period, indicating where in the statement of financial position the deferred amounts are reported.

2. The Board affirmed that under FASB Statement No. 15X, *Fair Value Measurements*, the determination of where within the fair value hierarchy an estimate of fair value falls depends on where within the fair value hierarchy the inputs that have a significant effect on the estimate fall. The Board clarified that the requirement to consider the significance of the inputs on the estimate is not intended to prescribe a formulaic sensitivity analysis of the data. The Board decided not to provide incremental guidance for making that determination in the proposed FSP.

Objective of Meeting:

The purpose of the meeting was to resolve two issues raised in drafting the proposed FSP and the staff draft of the FVM Statement.

Matters Discussed and Decisions Reached:

Disclosures

1. Ms. Thuener said that the first issue relates to disclosures. Specifically, the staff recommends that the Board reconsider its earlier decision to require disclosure of the fair value of the derivative instrument at initial recognition, that is, disclosure of the fair value of the derivative instrument, indicating whether or not

the estimate is based on a transaction price and, if the estimate is not based on a transaction price, where within the fair value hierarchy the estimate in its entirety falls. Ms. Thuener said that the staff recommends that the proposed FSP require only disclosures about unrealized gains (losses) because they are the principal focus of the accounting in the proposed FSP. She said that those disclosures, previously decided on by the Board, focus on (a) gross unrealized gains (losses) at initial recognition of the derivative instrument recorded in income during the current period, (b) gross unrealized gains (losses) at initial recognition of the derivative instrument recorded as a deferred credit (debit), and (c) a reconciliation of the beginning and ending deferred balance(s) during the period, indicating where in the statement of financial position the deferred amounts are reported. Ms. Thuener clarified that in periods subsequent to initial recognition of the derivative instrument, the disclosures in the FVM Statement would apply.

2. All Board members agreed with the staff recommendation. Mr. Young questioned whether additional disclosures indicating the relationship between the amount of unrealized gains (losses) recognized in income and the transaction value would be useful to users of financial statements. Mr. Smith clarified that because in many cases the transaction value would be nominal (zero), such disclosures at initial recognition might not be cost beneficial. Mr. Young suggested that the Board consider similar disclosures in the Board's project on derivative disclosures.

“Principal Driver” Notion

3. Ms. Thuener said that at its last meeting, the Board discussed the concept of “principal value drivers” as a basis for determining where within the fair value hierarchy an estimate of fair value falls, noting the need for further clarification in that regard. In response, the staff recommends that in the FVM Statement, the Board clarify that concept in the context of inputs that are “significant” to the estimate based on an assessment of all relevant data, indicating that the “significant” assessment is not intended to prescribe a formulaic sensitivity analysis of that data. Ms. Thuener said that the staff recommends that the Board allow judgment in applying that concept under the proposed FSP. She said that in the staff’s view the requisite assessment under the proposed FSP is generally consistent with the assessments made currently under EITF Issue No. 02-3, “Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities.”

4. All Board members agreed with that staff recommendation. Ms. Schipper suggested that the staff revise the proposed FSP to explicitly state that the requirement to assess the significance of the inputs used to estimate fair value is not intended to prescribe a formulaic sensitivity analysis.

Follow-up Items:

5. None.

General Announcements:

6. None.



**Board Meeting Handout
FSP FAS 133-a
October 12, 2005**

The Board will discuss two issues raised in drafting a proposed FSP FAS 133-a, "Accounting for Unrealized Gains (Losses) Relating to Derivative Instruments Measured at Fair Value under Statement 133."

1. DISCLOSURES

The Board will discuss whether to eliminate the requirement to disclose the fair value of a derivative instrument at initial recognition, indicating whether the estimate is based on a transaction price or is otherwise determined and, if otherwise determined, where within the fair value hierarchy the estimate in its entirety falls. Instead, because the principal focus of the proposed FSP is on unrealized gains (losses) relating to the derivative instrument, the Board will discuss whether to limit disclosures to information about those unrealized gains (losses), as recommended by the staff.

2. "PRINCIPAL VALUE DRIVER" NOTION

As a basis for determining whether the minimum reliability threshold for the estimate is met at initial recognition of the derivative instrument (that is, whether the estimate falls within Level 4 or higher of the fair value hierarchy), the proposed FSP would rely on the guidance in FASB Statement No. 15X, *Fair Value Measurements* (FVM Statement). The working draft of the FVM Statement clarifies that where within the fair value hierarchy an estimate of fair value falls depends on where within the fair value hierarchy inputs that are "significant to the estimate" fall, thereby eliminating earlier references to "principal value drivers." That assessment is not intended to require a formulaic sensitivity analysis of available data. Rather, it is intended to require an overall assessment, considering the preponderance of the evidence. The Board will discuss whether to allow judgment in applying that guidance in the proposed FSP, as recommended by the staff.