

MINUTES



To: Board Members

From: Drum (ext. 296)

Subject: Minutes of the October 17, 2007 Board Meeting – Agenda Request – Effective Date of Statement 157 **Date:** December 17, 2007

cc: Golden, Cosper, MacDonald, Bielstein, Leisenring, Chookaszian, Posta, Lott, Gabriele, Allen Klimek, Mayer, Stevens, Tully, Wyatt, Tamulis, Nickell, Barker, C. Smith, Glotzer, Eastman (IASB), FASB Intranet

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Topic: Agenda Request – Effective Date of Statement 157

Basis for Discussion: Board Memorandum 1 dated October 8, 2007

Length of Discussion: 12:30p.m. – 1:15p.m.

Attendance:

Board members present: Herz, Batavick, Crooch, Linsmeier, Seidman, Smith and Young

Board members absent: None

Staff in charge of topic: Mayer

Other staff at Board table: Golden, Bielstein, Drum, Wyatt, Tully, Barker, Cosper

Outside participants: None

Summary of Decisions Reached

The Board decided not to add a project to its agenda to defer the effective date of FASB Statement No. 157, *Fair Value Measurements*, in its entirety. However, the Board directed the staff to evaluate other potential deferral alternatives including a deferral for (1) all assets and liabilities except financial assets and liabilities and derivatives subject to the scope of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, (2) private entities, and/or (3) “small” entities. The Board will discuss those alternative deferral options at a future Board meeting.

Objective of Meeting

1. The objective of this meeting was to determine whether the Board wanted to defer the effective date of Statement 157 in response to various implementation concerns.

The objective was met.

Matters Discussed and Decisions Reached

Effective Date of Statement 157

2. Mr. Mayer stated that Statement 157 does not require any new fair value measurements. He indicated that the framework in Statement 157 was intended to provide principles-based guidance to improve consistency in fair value measurements. It was never intended to remove the need for entities to apply judgment.
3. He stated that many constituents have expressed concern about their preparedness in implementing the framework in Statement 157 under the timeline provided in the standard. Mr. Mayer indicated that the constituents’ primary concerns relate to the following:
 - a. There are a number of unresolved implementation issues
 - b. It is unlikely that many of the implementation issues will be resolved and communicated before the effective date due to the timing of the Valuation Resource Group (VRG) and the FASB normal standard-setting process

- c. Many entities are currently implementing other accounting and auditing standards that may not have been contemplated in determining the amount of time needed for implementing Statement 157
 - d. A one year deferral would align the effective date of Statement 157 with the effective date of the new business combination standard.
- 4. Based on the concerns of constituents, Mr. Mayer asked the Board the following question
 - a. Does the Board want to revise Statement 157 to be effective for financial statements issued for fiscal years beginning after November 15, 2008 and interim periods within those fiscal years (a one-year deferral)?

Staff recommendation:

- 5. The staff recommended that a one-year deferral be provided. During the deferral period, the staff recommended requiring additional disclosures consistent with the objectives of the disclosures required by Statement 157 for entities that have not adopted Statement 157. Additionally, based on input from the Valuation Resource Group, the staff would evaluate implementation issues that would clarify the principles in Statement 157. The staff would make formal agenda requests to the Board to address certain implementation issues. Any resulting guidance would be exposed for public comment through the issuance of a FASB Staff Position. However, since the staff will only be providing clarification of the principles in Statement 157, many implementation issues will not be addressed by the staff and will continue to be unresolved.
- 6. The staff also recommended providing the same deferral for FASB Statement No. 159, *Fair Value Option for Financial Assets and Financial Liabilities*, and AICPA Statement of Position (SOP) 07-1, *Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies*. The staff believes that entities should be allowed to early adopt Statements 157 and 159 as of the original effective date of those Statements.

However, the 120-day retroactive election provision in Statement 159 should be clarified to indicate that it does not apply to entities adopting Statement 159 as of the original effective date.

Board Vote:

7. A majority of the Board voted not to defer the effective date of Statement 157 in its entirety. Mr. Batavick, Mr. Smith, and Ms. Seidman voted for a full one-year deferral. Mr. Herz, Mr. Young, Mr. Linsmeier, and Mr. Crooch voted against a full one-year deferral.

Board Comments:

8. Mr. Linsmeier questioned why the staff was recommending a wholesale deferral when the issues raised by constituents focused only on the first two objectives, defining fair value and the framework for measuring fair value. He also noted that the constituents' concerns mostly related to nonfinancial assets and liabilities. Mr. Linsmeier proposed no deferral for financial instruments and derivatives as a way to move forward with the standard and to be responsive to constituents' implementation concerns.
9. Mr. Mayer and Mr. Golden noted that the staff did consider this solution and realized that it could create problems in measuring goodwill in a business combination that involved financial assets and liabilities. In this scenario, financial assets and liabilities would be measured under Statement 157, while non-financial assets and liabilities would be measured under existing guidance.
10. Ms. Seidman stated that it was not her impression that the implementation issues raised by constituents related to nonfinancial assets and liabilities only. She stated that, in her opinion, many of the questions raised related to the framework presented in Statement 157 and that those principles apply to financial and nonfinancial assets and liabilities. Ms. Seidman identified three overriding themes in the constituents' implementation questions:

- a. Who is the market participant?
- b. What is the principal market?
- c. In what form should the item be valued?

However, Ms. Seidman noted that several large financial institutions have eagerly adopted the standard early. She stated that smaller institutions were simply not as ready as the large institutions. She also stated that smaller organizations do not have access to adequately detailed interpretations necessary to implement Statement 157.

- 11. Mr. Young asked the staff to outline the areas in which the staff intends to provide guidance.
- 12. Mr. Golden responded that the staff will likely present the three issues that Ms. Seidman identified, as well as the applicability of Statement 157 disclosures to plan assets of a pension or other postretirement benefit plan in the financial statements of the plan sponsor. Mr. Mayer also noted that there has only been one VRG meeting and more issues could be identified at future meetings.
- 13. Mr. Young commented that identification by the VRG is not a prerequisite to start the standard setting process. He indicated that the important use of the information from the VRG is to understand how the level of diversity created by Statement 157 compares to the current level of diversity.
- 14. Mr. Herz stated that he is not prepared to vote for a wholesale deferral of Statement 157. He stated that he is open to a partial deferral with a distinction made for financial and nonfinancial items or a distinction made for the size of the entity. He also stated that the implementation and application of Statement 157 is a vast improvement over current practice for financial instruments. He stated that the disclosures are an integral part of Statement 157. Mr. Herz is sympathetic to implementation questions arising related to nonfinancial items, however he emphasized that he cannot vote for a wholesale deferral. Mr. Herz stated that different implementation periods for different entities are not an entirely new concept. He noted that the effective date for FASB Statement No. 107,

Disclosures about Fair Value of Financial Instruments, had a different implementation period for large and small entities.

15. Mr. Smith stated that he agreed with Ms. Seidman that many of the issues raised are related to both financial and nonfinancial items. Mr. Herz responded stating that he believes the staff will be able to resolve many of the financial related issues expeditiously.
16. Ms. Seidman stated that users are very supportive of Statement 157 and that the main benefits to users are increased consistency and better disclosures. To the extent that some preparers are not ready to implement the standard, the benefits to users may be limited.
17. Mr. Batavick stated that he is very concerned about being responsive to users' desires. However, he stated that there are significant issues related to financial and nonfinancial items that must be addressed. He noted that when Statement 157 was redeliberated, the Board considered re-exposing the standard but the Board decided on a longer implementation period instead. He stated that he believes that the VRG should be given time to consider implementation issues. Mr. Batavick expressed concern over the added complexity of splitting the deferral between financial and nonfinancial. He voted for a complete deferral for one year supplemented by disclosures that mirror the intent of the Statement 157 disclosures.
18. Mr. Linsmeier stated that he does not support a one-year deferral and does not see the additional disclosures as a compromise. He also stated that he would be open for a deferral of only nonfinancial instruments.
19. Mr. Smith expressed support for the FASB's standard-setting process and stated that he does not support a deferral in order to alter the statement. However, he recognized that significant implementation issues remain. Therefore, Mr. Smith stated that he supports a full deferral in order for entities to resolve implementation issues, but not for the Board to alter Statement 157. He also stated that he would be in favor additional disclosures during the implementation period.

20. Mr. Crooch stated that he does not support a deferral and questioned whether the motivation to do so is to change the document rather than to allow more time to understand it. He also questioned whether there would be any greater understanding of the document after a one-year deferral.
21. Ms. Seidman stated that she is sympathetic toward users' desire for the additional disclosures resulting from Statement 157. However, she questions the readiness of many preparers. She therefore supports a full deferral with early adoption allowed. Ms. Seidman also expressed support for additional disclosures over the deferral period. She also stated that she would consider a deferral for only nonfinancial items and for private companies, if there were not enough votes for a full deferral.
22. Mr. Young stated that the disclosures required by Statement 157 are extremely important for users. Mr. Young stated that he believes Statement 157 is the most important project that the FASB has undertaken and that he feels the Board should move the standard forward. He stated that he is open to a partial deferral. He encouraged the staff to consider addressing some of the issues through FASB Staff Positions.
23. Mr. Herz stated that he does not support a wholesale deferral but could be supportive of a partial deferral. He stated that it is very important for financial instruments to be valued at fair value as defined by Statement 157 and that the financial statements contain the related disclosures. He also stated that entities will likely generate a range of values for a particular asset. He noted that users will need to learn to accept a range of fair values for a similar item, particularly items measured with level 3 inputs.
24. Mr. Smith questioned a partial deferral based on the size of the entity. He noted that investors in small companies are interested in the same information as investors in large companies.
25. Mr. Herz added that he questions whether a resource constraint truly exists and how effectively can the statement be applied given the constrained resources.

26. Mr. Batavick expressed a desire to communicate that the disclosures required by Statement 157 do not apply to sponsors accounting of pension and other postretirement benefit obligations because the net obligation is not a fair value measure.

Follow-up Items:

27. The Board directed the staff to evaluate other potential partial deferral alternatives including a deferral for (1) only nonfinancial assets and liabilities, (2) private entities, and/or (3) “small” entities.

General Announcements:

None.