**MINUTES**

Financial Accounting Standards Board

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| **To:** | FASB Board Members |
| **From:** | FAS 157 Team<br>(Jourdan x273) |
| **Subject:** | Minutes of the August 5, 2009 Board Meeting: Proposed Accounting Standards Update, Improving Disclosures about Fair Value, Field Study Analysis and the Remainder of Deliberations |
| **Date:** | August 21, 2009 |
| **cc:** | FASB: Golden, Bielstein, Proestakes, Stoklosa, Mechanick, Anderson, Glotzer, Chookaszian, Posta, Lott, C. Smith, Gabriele, Inzano, Maples, Sutay, Mills, FASB Intranet, Jourdan, Martin, Klimek, Allen; GASB: Reese, Schermann; IASB: Leisenring |

*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, Interpretation, or FASB Staff Position.*

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| Topic: | Field Study Analysis and the Remainder of Deliberations |
| Basis for Discussion: | Memorandum No. 4, Memorandum No. 5, Addition to Board Handout |
| Length of Discussion: | 9:00 a.m. – 9:35 a.m. |
| Attendance: | |
| Board members present: | FASB: Herz, Linsmeier, Seidman, Smith |
| Board members participating by phone: | Siegel |
| Board members absent: | None |
| Staff in charge of topic: | FASB: Bhave |
| Other staff at Board table: | FASB: Proestakes, Mills, Anderson, Brickman, Jourdan |

Summary of Decisions Reached

After discussing the feedback received from field study participants on the proposed disclosure requirements, the Board directed the staff to draft a proposed Accounting Standards Update to improve disclosures about fair value measurements. The Exposure Draft would both clarify certain existing required disclosures about fair value measurements and propose several new disclosures, as described below.

1. The Board will propose three new disclosure requirements:

    a. Information about the sensitivity of certain fair value measurements: If a change in one or more of the significant inputs to a Level 3 fair value measurement would significantly change the fair value, the reporting entity would state that fact and disclose the effect of those changes.

    b. Information about transfers in and/or out of Levels 1 and 2: A reporting entity would disclose information about significant transfers in and out of Levels 1 and 2 and the reasons for the transfers.

    c. Gross reporting of changes in Level 3 fair value measurements: Information about purchases, sales, issuances, and settlements, included in the reconciliation of Level 3 fair value measurements, would be presented on a gross basis rather than a net basis.

2. The Board will propose two clarifications of existing disclosure requirements:

    a. Level of disaggregation: An entity is currently required to provide fair value measurement disclosures for each major category (class) of assets and liabilities, and the Board plans to provide guidance on the meaning of the term *class*. The Board believes a class is often a subset of assets or liabilities within a line item in the statement of financial position. An entity would apply judgment in determining the appropriate classes of assets and liabilities.

b. Disclosures about inputs and valuation techniques: An entity is currently required to provide disclosures about the valuation techniques used to measure fair value. The Board will clarify that the disclosures about the inputs used are required for both recurring and nonrecurring fair value measurements. The Board also will clarify that those disclosures are required for fair value measurements that fall in both Level 2 and Level 3.

The Board decided that the proposal would be effective for reporting periods (annual or interim) ending after December 15, 2009, except for Level 3 sensitivity disclosures, which would be effective for reporting periods (annual or interim) ending after March 15, 2010.

The Board directed the staff to proceed to a draft of a proposed Accounting Standards Update for vote by written ballot, with a 45-day comment period.

Objective of the Meeting

1. The objectives of the meeting were for the Board to discuss (a) the staff's analysis of the field study responses for improving fair value disclosures and (b) the staff's recommended revisions to the staff draft of the proposed Accounting Standards Update (Update) in response to the field study. The objectives of the meeting were met.

Matters Discussed and Decisions Reached

**Issue 1—Proceeding with a Proposal without Sensitivity Disclosures**

**Staff Recommendation**

2. The staff recommended that the Board proceed with a proposal that would include all of the disclosures discussed at the May 27, 2009, Board meeting except for disclosure of the effect of reasonably possible alternative inputs for Level 3 measurements. The staff recommended that the Board defer consideration of sensitivity disclosures until sufficient progress is made in the Board's accounting for financial instruments project.

**Board Vote**

3. By a vote of three (Herz, Linsmeier, and Siegel) to two (Seidman and Smith), the Board decided to include *all* disclosures discussed at the May 27, 2009, Board meeting, *including* the effect of reasonably possible alternative inputs for Level 3 fair value measurements, in the proposed Accounting Standards Update.

**Board Comments**

4. Ms. Seidman noted that many field study respondents questioned the operationality of a sensitivity analysis. She further noted that respondents cited the use of third-party pricing services to estimate the fair value of many Level 3 assets as the primary reason for operationality concerns. Ms. Seidman stated that with the expectation that additional assets will be required to be measured at fair value in the accounting for financial instruments project, along with the addition of the disclosure framework project, a sensitivity analysis disclosure may be premature and further analysis should be done before moving forward with the requirement. Mr. Smith agreed that the exposure of a sensitivity analysis is premature because a thorough evaluation of costs and benefits has not been completed. He also stated that preparer's reliance on data from third-party pricing services makes a sensitivity analysis difficult because it is difficult to understand the assumptions behind the prices received. Mr. Linsmeier stated that it is important for a company to understand the fair value estimates that pricing services are providing because they are the company's responsibility.

5. Mr. Linsmeier disagreed with the staff recommendation about deferring a sensitivity analysis and, that in his view, improvements to disclosures are necessary at this time. Mr. Linsmeier also noted that once the accounting for financial instruments project is completed, the Board will need to revisit all fair value measurement disclosure requirements, but, in the interim, those disclosures are necessary. The disclosures would provide a sensitivity analysis primarily around securities and derivatives and would be consistent with the proposal in the disclosure framework project about general sensitivity analysis. Mr. Linsmeier further noted that the proposal would be an opportunity to begin receiving feedback about sensitivity analyses that can be useful for further projects.

6. Ms. Seidman disagreed with Mr. Linsmeier's suggestion to use the sensitivity disclosures as a forum for further projects. Ms. Seidman noted that companies would need to modify their financial reporting systems to comply with the guidance. It would be difficult for companies to comply with a new disclosure project with different requirements, including requiring additional changes to accounting systems.

7. Mr. Herz stated that he would like to expose the proposed sensitivity analysis disclosures and receive more input about the operationality of the requirement in general, the use of data provided by pricing services, and how financial statement users would use the information provided in a sensitivity analysis. He further noted that sophisticated users consistently ask for these disclosures and that it would be helpful to understand their decision-usefulness.

**Issue 2—Revising the Guidance on the Level of Disaggregation**

**Staff Recommendation**

8. The staff recommended that an earlier draft of the proposed Update be changed to revise guidance on determining the appropriate level of disaggregation to clarify that judgment is required in determining classes of assets and liabilities and that the Board does not intend to require disaggregation that goes beyond that which is required for specific assets and liabilities under current U.S. generally accepted accounting principles.

9. The staff recommended deleting the guidance in an earlier draft of the proposed Update that indicates that entities should consider disaggregation by type of significant inputs for Level 2 and Level 3 measurements.

10. The staff also recommended changing an earlier draft of the proposed Update to replace the quantitative (dollar amounts) disaggregation table by type of input for Level 2 measurements with a qualitative disclosure describing the significant inputs used for each class of assets and liabilities.

**Board Vote**

11. The Board voted unanimously in favor of the staff's recommendation.

**Board Comments**

12. Mr. Linsmeier agreed with the general set of recommendations provided by the staff; however, he stated that clarification in the language of the proposed Update is necessary to provide more guidance to preparers about disaggregation.

13. Mr. Bhave stated that the staff agreed with Mr. Linsmeier's view and that it would make the necessary changes. Mr. Bhave said that although the staff agrees with Mr. Linsmeier, it does not want to be overly prescriptive in the disclosure requirements, but wants to leave judgment to the preparers.

## Comment Period and Effective Date

**Staff Recommendation**

14. The staff recommended a 45-day comment period and that the proposed amendments be effective for annual and interim periods ending after December 15, 2009, (alternative 2) with the exception of the sensitivity disclosures, which would be effective for periods ending after March 15, 2010.

15. Mr. Bhave noted that the staff recommendation did not include the sensitivity analysis requirements and, therefore, the comment period and effective date alternatives must be revisited from paragraph 14 of Memo No. 5 (see table below). In that memo, the staff recommended alternative 2.

**Board Vote**

16. The Board voted unanimously for alternative 2 (see following table)

| **Project Step** | **Alternative One (Normal)** | **Alternative Two**<br>**(Effective Date Staggered)** | **Alternative Three**<br>**(Fast Track)** |
|---|---|---|---|
| Issue Proposed Update | End of August | End of August | August 14 |
| Comment Period Ends | October 15 | October 15 | September 14 |
| Effective Date | Periods ending after 03/15/2010 | Periods ending after 12/15/2009 except for Level 3 sensitivity disclosures, which are effective for periods ending after 03/15/2010 | Periods ending after 12/15/2009 |

Follow-up Items:

None.

General Announcements:

None.