



Board Meeting Handout

Proposed FSP FAS 107-a: Disclosures about Certain Financial Assets January 23, 2009

PURPOSE OF THIS MEETING

1. The staff plans to discuss with the Board the comment letters received from constituents about the proposed FSP FAS 107-a, *Disclosures about Certain Financial Assets: An Amendment of FASB Statement No. 107*. The staff also plans to redeliberate the issues identified by respondents on the proposed FSP and discuss whether the proposed FSP should be issued as final.

COMMENT LETTER SUMMARY

2. On December 24, 2008, the Board issued the proposed FSP for comment. The comment period ended on January 15, 2009. As of January 19, 2009, comment letters were received from 62 respondents. A comment letter summary has been prepared and is posted to the FASB website as part of the project activities web page for this project.

3. The majority of respondents did not support the proposed FSP as written for numerous reasons. In addition, those respondents stated that, if the proposed FSP were issued as final, the proposed effective date is not operational. These comments are consistent with the comments received on the Exposure Draft *Investments in Debt Instruments: Proposed amendments to IFRS 7*, issued by the International Accounting Standards Board (IASB). That Exposure Draft was issued at the same time as the proposed FSP as a joint response by the FASB and IASB to address accounting issues arising from the global credit crisis. The following table summarizes the demographics of the respondents and their overall position:

Respondent Profile

Type of Respondent	Number	Generally support the proposed FSP	Support proposed FSP if only fair value disclosures required	Do not support the proposed FSP	Did not indicate overall position
Accounting Firm	8	2	0	6	0
Consultant	4	2	0	2	0
User	3	0	3	0	0
Individual	5	1	1	1	2
Professional / Industry Organization	9	1	0	8	0
Preparer:					
Financial Institution	19	2	0	17	0
Other	14	0	0	12	2
Total Preparer	33	2	0	29	2
TOTAL	62	8	4	46	4

ISSUES FOR CONSIDERATION

Issue 1—Status of Project

4. The majority of respondents commented that the proposed FSP, as currently written, was not operational. Respondents pointed out that the proposed FSP did not achieve its objective of improving the information provided to users, nor did it increase comparability. In addition, many respondents were confused by the description of the incurred loss amount and identified significant challenges in determining an incurred loss amount for debt securities classified as held-to-maturity and available-for-sale. Respondents also questioned the usefulness and amount of effort necessary to produce information about pro forma income from continuing operations (before taxes) for financial assets within the scope of the proposed FSP as if those financial assets were carried at fair value and the incurred loss amount. These respondents noted that pro forma information may be misleading in this instance.

Question for the Board

5. Does the Board want to proceed with pursuing disclosure guidance for financial assets?

Staff Recommendation

6. The staff recommends that the Board pursue disclosure guidance for financial assets.

(Note: The following additional issues and related questions for the Board are only relevant for today's meeting if the Board decides to pursue new disclosure guidance for financial assets.)

Issue 2—Direction of Project

7. If the Board does decide to proceed with pursuing new disclosure guidance for financial assets, the staff proposes the following approaches for the Board's consideration:
 - a. **Approach A**—Issue as final the proposed FSP with clarifications. Under this approach, the staff would provide the Board with a revised FSP based on comments received from respondents at the Board meeting scheduled for January 28, 2009 to be issued on or around January 30, 2009.
 - b. **Approach B**—Issue as final the proposed FSP with a revised scope and revised disclosures. Under this approach, the scope could be revised to include only loans as defined in Statement 114 or more broadly apply to **financial assets** within the scope of FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*. Under either scope, the disclosures would be limited to the fair value amount for each interim period (that is, the incurred loss amount column and the pro forma income disclosures would not be required).
 - c. **Approach C**—Do not issue a final FSP in the near term and revisit the disclosures as part of a broader financial instruments project. Under this approach, the Board could either issue an FSP later in the year or as part of a final financial instruments standard.

Staff Recommendation

8. The staff recommends Approach B. Under Approach B, the staff would recommend that the scope of the guidance would include **financial assets** within the scope of Statement 107. The staff believes that expanding the frequency of fair value disclosures to interim reporting is consistent with users' requests for more information and improves the timeliness of that information.

(Note: The following additional issues and related questions for the Board are only relevant for today's meeting if the Board decides on Approach A or B in Issue 2).

Issue 3—Scope: Private Companies

9. Respondents representing private entities commented that many private entities will be affected by this disclosure requirement because private entities enter into derivative instruments as part of lending arrangements (interest rate swaps). The respondents also commented that the increased amounts of disclosures in the proposed FSP are not needed to address any significant shortcomings in the information used for these entities.

10. In accordance with paragraph 7 of Statement 107, the guidance in that Statement applies to all entities but is optional for those entities covered by FASB Statement No. 126, *Exemption from Certain Required Disclosures about Financial Instruments for Certain Nonpublic Entities*. Paragraph 2 of Statement 126 states:

Disclosures about the fair value of financial instruments prescribed in Statement 107 shall be optional for an entity that meets all of the following criteria:

- a. The entity is a nonpublic entity.
- b. The entity's total assets are less than \$100 million on the date of the financial statements.
- c. The entity has no instrument that, in whole or in part, is accounted for as a derivative instrument under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, other than commitments related to the origination of mortgage loans to be held for sale during the reporting period.

11. The staff believes there are two potential approaches:
 - a. **Approach A**—Extend the optional application included in Statement 107 (pursuant to Statement 126) and the practicability considerations in paragraphs 14 and 15 for private entities to the final FSP.
 - b. **Approach B**—Exclude private entities from the scope of the final FSP.

Question for the Board

12. Does the Board believe special consideration should be given to private entities related to the disclosure requirements?

Staff Recommendation

13. The staff recommends Approach A.

Issue 4—Effective Date and Transition

14. Because of concerns about the operationality of the proposed FSP, many respondents commented that the project should be discontinued. However, respondents noted that, if the Board were to issue a final FSP, the effective date should be delayed. With regard to requiring comparative disclosures, respondents' comments varied. Some respondents supported no requirement for comparative disclosures. Other respondents commented that the disclosures should be comparative. Still other respondents noted that the disclosures should not be comparative in the first year of application.

15. The staff believes that the following are the approaches for the effective date and transition (for each approach, there are three potential options related to comparative disclosures: require comparatives, do not require comparatives, and require comparatives except for the first year of application):

- a. **Approach A**—Interim and annual periods ending after December 15, 2008
- b. **Approach B**—Interim and annual periods ending after December 15, 2009

c. **Approach C**—Interim periods ending after March 15, 2009

(**Note:** Approaches A and B are only applicable if Approach A in Issue 2 is selected by the Board.)

Question for the Board

16. What effective date and transition does the Board prefer? Should the disclosures be comparative?

Staff Recommendation

17. The staff recommends Approach C, with disclosures being comparative except in the first year of application. If private entities are included within the scope of the FSP, one staff member recommends that the FSP be effective for private entities for the first interim period beginning after December 15, 2009.