**MINUTES**

Financial Accounting Standards Board

**To:** Board Members

**From:** Mortgage Servicing Rights (Hamilton, ext. 330)

**Subject:** Minutes of the March 31, 2004 Board Meeting

**Date:** April 4, 2004

**cc:** FASB: Bielstein, Smith, Petrone, Wilkins, Lott, Eric Smith, Laurenzano, Hamilton, Thompson, Gabriele, Sutay, Lapolla, FASB Intranet;

Topics: Accounting for mortgage servicing rights

Basis for Discussion: Board memorandum dated March 31, 2004, and audience handout.

Length of Discussion: 1:00 p.m. to 1:45 p.m.

Attendance:

Board members present: Herz, Batavick, Crooch, Schieneman, Schipper, Seidman, Trott

IASB Board/Staff present: Leisenring

Board members absent: None

Staff in charge of topics: Laurenzano

Other Staff at Board table: Larry Smith, Lott, Wilkins, Hamilton

Outside Participants: None

Summary of Decisions Reached:

In its project on mortgage servicing rights, the Board reached a tentative decision that fair value is the appropriate measurement attribute for mortgage servicing rights and possibly for other types of servicing rights. The Board also directed the staff to investigate the feasibility of a separate project to permit, but not require, entities to account for financial instruments and similar instruments at fair value (similar to the fair value option in IAS 39, *Financial Instruments: Recognition and Measurement*).

Matters Discussed:

The Board discussed whether fair value is the relevant attribute for the measurement of servicing rights.

The staff recommended that servicing rights be measured at fair value. The staff stated that reporting servicing rights at fair value would eliminate much of the existing disparity in financial reporting by mortgage bankers relative to hedging, impairment, and amortization concerns. The staff further stated that reporting servicing rights at fair value would enable users to better assess a mortgage bank's performance and valuation process.

Mr. Trott stated that while he supports the staff's recommendation, there could be arguments made for accounting for servicing rights on an amortized cost basis. He further stated that certain constituents would prefer that servicing rights be accounted for at fair value on an elective basis. Mr. Trott noted that IAS 39 provides for fair value accounting for financial instruments on an elective basis. Mr. Trott proposed that the FASB consider adding a similar project to its agenda and including servicing rights in the scope of the project. Mr. Herz commented that mortgage servicing rights are not financial instruments, but stated that he was in favor of considering a project to account for servicing rights at fair value on an elective basis.

Mr. Wilkins asked Mr. Trott if he proposed to postpone the proposed project until the most recent amendment to IAS 39, *Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk*, is issued. Mr. Trott stated that he believes a related FASB project should not be postponed until the issuance of the amendment to IAS 39 as the amendment does not directly apply to elective fair value.

Mr. Herz asked for clarification of the scope of the project on mortgage servicing rights. Mr. Laurenzano responded that a Board decision on the project scope still needs to be made, but as proposed, the project scope is limited to mortgage servicing rights. Mr. Laurenzano stated that the staff will ask the Board at a later meeting whether the scope of the project should be expanded to include all servicing rights or all beneficial interests in a securitization.

Ms. Schipper stated that she was in favor of Mr. Trott's proposal. However, she stated that she was concerned with the scope of Mr. Trott's proposed project. She asked whether the proposed project's scope should include all assets and liabilities in a securitization, including servicing rights and retained interests. Ms. Schipper expressed concern that the scope of the project could extend to the treatment of real estate investment property and other property, plant, and equipment at fair value.

Mr. Trott recommended that the staff continue with its project on mortgage servicing rights and stated that the staff's recommendation on accounting for mortgage servicing rights could be incorporated into the proposed project on accounting for financial instruments, if such a project were added to the agenda.

Ms. Seidman stated that certain constituents requested that the Board expeditiously provide additional guidance on accounting for mortgage servicing rights. She stated that she was concerned that integrating the project on mortgage servicing rights into a proposed project on financial instrument valuation could postpone the issuance of guidance on mortgage servicing rights. She stated that she would like both projects worked on concurrently. Mr. Smith stated that he believed this would be an inefficient use of staff resources.

Messrs. Herz and Trott agreed with Ms. Seidman's recommendation.

Mr. Laurenzano stated that he would provide the Board with additional information on the impact of the following open issues related to the project on mortgage servicing rights:

1. Should the project scope include all residual and beneficial interests, all servicing rights, or only mortgage servicing rights?
2. When should fair value be applied (at and subsequent to inception or subsequent to inception only)?
3. What are the potential impacts on FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*?
4. What additional disclosures should be required?

Mr. Laurenzano commented that he believed that most constituents prefer elective fair value accounting for mortgage servicing rights. He stated that many banks do not hedge mortgage servicing rights and would prefer not to account for these assets at fair value. Mr. Trott stated that one downside to making fair value elective is the likelihood of comparability issues.

Ms. Schipper asked if the IAS 39 guidance on elective fair value of financial assets was field tested. Mr. Leisenring responded that the IASB did not field test this guidance but did receive significant input from the user community on the issue. He further stated that preparers were for the most part in favor of elective fair value and regulators were not. He stated that the most consistent criticism of the elective option was that liabilities should not have changes in a company's own credit risk included in its calculation of fair value

Mr. Herz asked Board members if they were in favor of directing the staff to assess the feasibility of each of the projects discussed, elective fair value of financial instruments and accounting for mortgage servicing rights at fair value. No Board members objected to the proposal.

Follow-up Items:

The staff will assess the feasibility of a project on elective fair value of financial instruments and accounting for mortgage servicing rights at fair value.

General Announcements:

None