

MINUTES



To: Board Members
From: Paul (ext. 325)
Subject: Minutes of September 26, 2007 Board Meeting: Ratification of EITF Consensuses-for-Exposure
Date: January 10, 2008
cc: Bielstein, MacDonald, Golden, Cospers, Wyatt, Paul, Bolash, Stevens, Fanzini, Leverenz, Zecher, Staniszewski, Allen, Gabriele, Polley, Chookaszian, Glotzer, Posta, C.Smith, Richter, Leisenring, FASB Intranet

The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. Official consensus positions of the EITF are presented in meeting minutes and in EITF Abstracts. Board ratification of a consensus-for-exposure permits the exposure of a draft abstract for public comment. Board ratification of an EITF consensus completes the overall due process of developing a consensus as set forth in EITF Abstracts, Topic No. D-1, "Implications and Implementation of an EITF Consensus."

Topic: Board ratification of consensuses-for-exposure reached on EITF Issues Nos. 07-1, 07-4, and 07-6.

Basis for Discussion: Board Memorandum dated September 26, 2007

Length of Discussion: 10:40 a.m. to 11:00 a.m.

Attendance:

Board members present: Batavick, Crooch, Linsmeier, Seidman, Young, and Herz
Board members absent: Smith
Staff in charge of topic: Paul
Other staff at Board table: Cospers and Staniszewski
Outside participants: Leisenring

Summary of Decisions Reached:

The Board considered and ratified the consensus-for-exposure reached at the September 11, 2007 EITF meeting in the following three Issues.

1. Issue No. 07-1, "Accounting for Collaborative Arrangements"
2. Issue No. 07-4, "Application of the Two-Class Method under FASB Statement No. 128, *Earnings per Share*, to Master Limited Partnerships"
3. Issue No. 07-6, "Accounting for the Sale of Real Estate When the Agreement Includes a Buy-Sell Clause."

Objective of Meeting:

The objective of the meeting was for the Board to ratify the consensus-for-exposure reached in three Issues. The objective of the meeting was met.

Matters Discussed and Decisions Reached:

1. Mr. Paul noted a change from previous EITF meeting materials regarding the use of the term *consensus-for-exposure*. This term will be used for current and future tentative conclusions reached by the Task Force on EITF Issues that have been approved for issuance as draft abstracts for a public comment period subject to Board ratification.

RATIFICATION OF CONSENSUSES-FOR-EXPOSURE

Issue 07-1

2. Mr. Paul stated that the Task Force reached consensus-for-exposure on four issues in Issue 07-1. The first consensus-for-exposure is that a collaborative arrangement is a contractual arrangement in which the parties are active participants to the arrangement and are exposed to significant risks and rewards that are dependent on the ultimate commercial success of the endeavor.
3. The Task Force reached a consensus-for-exposure on Issue 2 that transactions with third parties should be reported gross or net on the appropriate line item in each entity's respective financial statements pursuant to the guidance in Issue 99-19. In

reaching that consensus-for-exposure, the Task Force also concluded that the equity method of accounting under Opinion 18 should not be applied to collaborative arrangements.

4. The Task Force reached a consensus-for-exposure on Issue 3 that the income statement classification of payments between participants pursuant to a collaborative arrangement be evaluated based on the nature of the arrangement, the nature of each entity's business operations, and the contractual terms of the arrangement. Task Force members observed that the payments between participants pursuant to a collaborative arrangement that are within the scope of other authoritative literature regarding income statement classification should apply the relevant provisions of that literature. If the payments are not within the scope of other authoritative accounting literature, the income statement classification for the payments should be based on an analogy to authoritative accounting literature or a reasonable, rational, and consistently applied accounting policy.
5. The Task Force reached a consensus-for-exposure on Issue 4 that a participant in a collaborative arrangement should annually disclose specific information about the arrangement and amounts associated with the arrangement. Those disclosures are listed in the Board Meeting Handout and the meeting materials.
6. The Task Force reached a consensus-for-exposure that this Issue should be effective for fiscal years beginning after December 15, 2007. Entities should report the effects of applying this Issue as a change in accounting principle through retrospective application to all periods. If it is impracticable to apply the effects of a change in accounting principle retrospectively, disclosure should be made of both the reasons why reclassification was not made and the effect of the reclassification on the current period pursuant to the guidance in paragraph 9 of Statement 154. The evaluation of whether transition through retrospective application is practicable should be made on an arrangement-by-arrangement basis.
7. Mr. Paul asked if any Board members objected to ratifying Issue 07-1. Mr. Linsmeier noted that the transition guidance was not consistent with the FASB's new transition policy. He stated that the new policy requires the use of retrospective application and

8. Mr. Young suggested that the income statement classification disclosure should be quarterly, rather than annual as is currently required. Ms. Cosper agreed with Mr. Young's suggestion and recommended that the notice to recipients should include a question about whether to require quarterly or annual disclosure.
9. The Board agreed to ratify the consensus-for-exposure reached in Issue 07-1 (all Board members agreed).

Issue 07-4

10. Mr. Paul stated that for Issue 07-4, the Task Force reached a consensus-for-exposure that the scope of this Issue apply only to master limited partnerships that have concluded that the incentive distribution is an equity distribution. The Task Force also reached a consensus-for-exposure that this Issue should apply to all MLP arrangements regardless of whether the incentive distribution rights are a separate interest or embedded in the general partnership interest.
11. The Task Force reached a consensus-for-exposure that when applying the two-class method when current period earnings are in excess of cash distributions, undistributed earnings should be allocated to the GP, LPs, and IDR holder (or the GP when the IDR is embedded within the GP) as if the undistributed earnings were available cash, a defined formula in most MLP agreements.
12. The Task Force also reached a consensus-for-exposure that when cash distributions are in excess of current period earnings, net income (or loss) should be reduced (or increased) by distributions to the GP, LPs, and IDR holder (if the IDR is a separate

interest). The resulting negative undistributed earnings amount after deducting cash distributions would be allocated to the GP and LPs based on their respective sharing of losses specified in the partnership agreement.

13. The Task Force reached a consensus-for-exposure that this Issue should be effective for financial statements issued for fiscal years beginning after December 15, 2007. Earlier application is not permitted. The guidance in this Issue should be applied retrospectively for all financial statements presented.
14. Mr. Herz observed that he may not have reached the conclusion that available cash was equivalent to undistributed earnings. However, he stated that he would not object to the consensus-for-exposure being issued for comment.
15. The Board agreed to ratify the consensus-for-exposure reached in Issue 07-4 (all Board members agreed).

Issue 07-6

16. For Issue 07-6, Mr. Paul stated that the Task Force reached a consensus-for-exposure that a buy-sell clause, in and of itself, does not constitute a prohibited form of continuing involvement that would preclude partial sales treatment under Statement 66. The buy-sell clause should be evaluated based on all relevant facts and circumstances to determine whether the clause constitutes an option or other prohibited form of continuing involvement. However, a buy-sell clause may constitute a prohibited form of continuing involvement that precludes partial sales treatment if the buyer cannot act independently from the seller or if the seller is economically compelled to reacquire the real estate. The Task Force considered factors that would result in the buyer compelling the seller or under which, based on the facts, there may be an indication that the seller has substantial continuing involvement in the real estate. The factors were included in the Board Meeting Handout and meeting materials.
17. The Task Force reached a consensus-for-exposure that this Issue should be effective for new arrangements entered into in fiscal years beginning after December 15, 2007. Earlier application is not permitted.

18. Mr. Linsmeier commented that at the meeting Task Force members indicated that there was no current diversity in practice. In addition, he noted that (a) buy-sell clauses were seldom invoked, (b) this issue has been present for many years and (c) the proposed guidance relied on judgement based on facts and circumstances indicated by the presence or absence of specific factors. For these reasons, he did not understand why guidance was necessary at this time and, therefore that he does not support ratifying this Issue for exposure. Ms. Seidman questioned whether the factors provided in the Issue should be included in the draft abstract. Mr. Young stated that he would also support not including the factors. Mr. Paul noted that the staff was told that the alternative views presented in the Issue Summary were observed in practice and that the view on which the Task Force reached agreement is similar to the way in which the majority of constituents are currently addressing the issue.

19. The Board members agreed to include a question in the invitation to comment about whether there is diversity in practice and about whether the factors need to be included.

20. The Board agreed to ratify the consensus-for-exposure reached in Issue 07-6 (all Board members agreed).

Follow-up Items:

21. None

General Announcements:

22. None