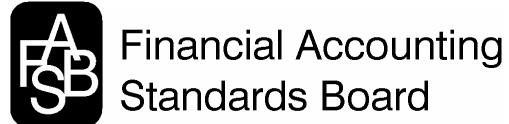


MINUTES



To: Board Members
From: Sledge (ext. 273)
Subject: Minutes of the August 2, 2006 Board Meeting
Date: August 24, 2006
cc: FASB: Bielstein, Smith, MacDonald, Cassel, Hood, Mechanick, Proestakes, Cafini, Roberge, Sledge, Zimmerman, Sarno, Stevens, Polley, Jolla, Carney, Allen, Stevens, Sutay, FASB Intranet; GASB: K. Johnson; IASB: Hickey, Leisenring, McGeachin, Upton

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.

Topics: Postretirement Benefit Obligations, Including Pensions: Disclosures and Other Matters Raised by Respondents

Basis for Discussion: Board Memorandum No. 14A, dated July 28, 2006
Board Memorandum No. 21, dated July 21, 2006
Board Memorandum No. 21A, dated July 28, 2006
Board Memorandum No. 22, dated July 21, 2006

Length of Discussion: 9:00–10:30 a.m.

Attendance:

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

Board members absent: Trott

Other Participants: Leisenring (IASB)

Staff in charge of topic: Proestakes

Other staff at Board table: Bielstein, Cassel, Hood, Mechanick, Sledge, and Zimmerman

Summary of Decisions Reached:

The Board continued redeliberations of its March 2006 Exposure Draft, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*.

The Board made the following decisions related to disclosures:

1. The Board affirmed the proposal in the Exposure Draft, with minor changes, that would require an employer that is a business entity that sponsors one or more defined benefit pension or other postretirement benefit plans to disclose the following in annual financial statements:
 - a. The net actuarial gain or loss and the prior service cost or credit recognized in other comprehensive income, separated into amounts initially recognized in other comprehensive income, and amounts subsequently recognized as adjustments to other comprehensive income, including any transition asset or transition obligation remaining from the initial adoption of FASB Statements No. 87, *Employers' Accounting for Pensions*, and No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, as those amounts are recognized as components of net periodic benefit cost pursuant to the recognition and amortization provisions of Statements 87 and 106
 - b. The amount of net actuarial gain or loss, prior service cost or credit, and transition asset or transition obligation included in accumulated other comprehensive income
 - c. Separately, the estimated portion of the net actuarial gain or loss, prior service cost or credit, and transition asset or transition obligation included in accumulated other comprehensive income that will be recognized as a component of net periodic benefit cost over the fiscal year that follows the most recent statement of financial position presented.
2. The Board also affirmed the proposal in the Exposure Draft, with minor changes, that would require a not-for-profit employer that sponsors one or more defined benefit pension or other postretirement benefit plans to disclose the following in its annual financial statements:
 - a. The net actuarial gain or loss and the prior service cost or credit recognized as separate line items in the statement of activities, separated into amounts arising during the period and amounts reclassified as components of net periodic benefit cost, including any transition asset or transition obligation remaining from the initial adoption of Statements 87 and 106, during the period

- b. The cumulative amount of net actuarial gain or loss, prior service cost or credit, and transition asset or transition obligation that has not yet been reclassified as components of net periodic benefit cost
 - c. Separately, the estimated portion of the cumulative net actuarial gain or loss, prior service cost or credit, and transition asset or transition obligation that has not yet been reclassified as a component of net periodic benefit cost but will be reclassified over the fiscal year that follows the most recent statement of financial position presented.
 3. The Board made the following decisions regarding specific disclosures that would be required by plan sponsors in the period the provisions of a final Statement are adopted:
 - a. To require disclosure of the effects of the change in accounting with respect to recognizing the funded statuses of defined benefit postretirement plans in the fiscal period the final Statement is adopted. This will be a tabular disclosure that will detail the effects of the change on individual line items in the statement of financial position.
 - b. To require disclosure of the effects of the change in accounting related to the requirement to measure plan assets and benefit obligations as of the date of the employer's statement of financial position. Specifically, an employer that is a business entity would report the effect on retained earnings and other comprehensive income as separate line items in the statement of changes in shareholders equity. A not-for-profit employer would report the effect on unrestricted net assets as a separate line item, outside of any performance indicator or other intermediate measure of operations, in the statement of activities.
 - c. Not to require compliance with other disclosure requirements in FASB Statement No. 154, *Accounting Changes and Error Corrections*.
 - d. Not to require pro forma disclosure of the effect of the recognition provisions on the employer's statement of financial position for the fiscal year-end preceding the fiscal year of adoption.
 - e. To require that a nonpublic entity, as defined in the final Statement, must disclose in any financial statements issued for fiscal years ending after December 15, 2006, but before implementation of the final Statement, a description of the new standard, the date that adoption is required, and the planned adoption date.
4. The Board decided not to expand the scope of Phase 1 to include other disclosures suggested by respondents. Those disclosures will be considered in Phase 2 in conjunction with the Board's fundamental evaluation of employers' accounting for postretirement benefits.

5. The Board also decided not to expand the scope of Phase 1 to consider several other suggestions made by respondents. These issues included additional guidance related to the selection of discount rates, the use of estimation, the option of simplified remeasurements during interim periods, and the effect of the Statement on hedging net investments in foreign subsidiaries.

Objectives of Meeting:

The objectives of the meeting were for the Board to redeliberate the note disclosures that will be required in the final Statement and to consider whether the scope of Phase 1 should be expanded to include several other issues raised by respondents. The objectives of the meeting were met.

Matters Discussed and Decisions Reached:

1. Mr. Proestakes opened the meeting by outlining the staff's objectives.

Note Disclosures Proposed in the Exposure Draft

2. The Board unanimously agreed with the staff's recommendation to retain the disclosures proposed in the Exposure Draft. Furthermore, all entities will be required to disclose the estimated portion of the transition asset or obligation included in accumulated other comprehensive income that will be recognized as a component of net periodic benefit cost over the fiscal year that follows the most recent statement of financial position presented. This change from the Exposure Draft results from the Board's recent decision to require transition assets and obligations to be recognized similarly to gains and losses and prior service costs and credits. Mr. Herz noted that one respondent had recommended that the estimated amount of each component of net periodic benefit cost to be reclassified over the following fiscal year be disclosed. Mr. Proestakes replied that analysts had indicated that the amounts in the proposed disclosure were the most difficult to estimate. He also noted that the actual amounts for all elements of net periodic benefit cost are already disclosed in interim financial reports.
3. Mr. Batavick stated that this disclosure was a good example of how the Board had listened to requests from users for disclosure of additional relevant information. Ms. Seidman agreed with Mr. Batavick.

Disclosure of the Effects of the Changes in Accounting

4. The Board unanimously agreed with the staff's recommendation to explicitly require disclosure of the effects of the changes in accounting in the fiscal period of adoption instead of relying on the disclosure requirements of Statement 154. This will be a tabular disclosure that will detail the effects of the change on individual line items in the statement of financial position. Mr. Herz noted that this disclosure would give users a basis from which to isolate the effects of the final Statement. Ms. Seidman noted that this disclosure was appropriate for the Statement's prospective transition provisions. Mr. Young agreed with Ms. Seidman. Mr. Batavick stated that this Statement had the potential to affect several line items on a reporting entity's statement of financial position and that it was important to provide users clear information about Statement's effects. Mr. Cassel clarified that this disclosure was different from the cumulative effect type disclosures people might have previously seen, as it was a differential disclosure highlighting the incremental effect of the new Statement on individual line items.
5. The Board unanimously agreed that the disclosure requirements in FASB Statement No. 154, *Accounting Changes and Error Corrections*, will not apply to changes in the measurement date required to measure plan assets and benefit obligations as of the date of the employer's statement of financial position. However, an employer that is a business entity would report the effect on retained earnings and accumulated other comprehensive income as separate line items in the statement of changes in shareholders equity. A not-for-profit employer would report the effect on unrestricted net assets as a separate line item, outside of any performance indicator or other intermediate measure of operations, in the statement of activities. Ms. Seidman stated that this was an accounting change that could occur in a period other than the recognition provisions, and it was important that the change in the measurement date be indicated somewhere in the financial statements. She added that the extent of disclosures required by Statement 154 did not seem necessary for this change. Mr. Young agreed with Ms. Seidman. Mr. Crooch added that requiring preparers to follow Statement 154 in this case did not seem appropriate. Mr. Linsmeier directed the staff to ensure that the language in the final Statement would require that the

effects on retained earnings and other comprehensive income not be obscured through aggregation of the effects with other unrelated items.

Disclosure of the Effect of the Statement on the Prior Year's Balance Sheet

6. By a vote of five to one (DMY), the Board agreed that no disclosure would be required of the effect of the final Statement on the employer's prior year balance sheet in the year of implementation. Mr. Batavick stated that the use of hindsight to evaluate deferred tax assets of the prior year would result in non-GAAP amounts that would just be calculations. He noted that deferred tax amounts are interrelated, and it might not be possible to isolate the deferred tax effects of only the recognized postretirement benefit liability. He also stated that the user community had not convinced him that the additional information was necessary, especially since the Statement would not affect a trend analysis of earnings. He added that other implementation issues regarding debt covenants made any form of retrospective application unattractive for this Statement. Mr. Proestakes noted that other issues could arise if the reporting entity engaged in a business combination or significant restructuring during the prior year, as it could be challenging to update forecasted income.
7. Ms. Seidman stated that companies had been required to disclose the value of plan assets, the obligation, and the net funded status for almost twenty years and that this disclosure would only be a refinement of existing disclosures to capture the deferred tax effects. She added that allowing an impracticability exception might lead to a lack of comparability among entities and additional complexity in implementation. She also noted that allowing the use of hindsight would result in an amount that was not representative, would set a poor precedent, and was not worth the cost.
8. Mr. Linsmeier agreed with Ms. Seidman. He stated he was very sympathetic to trying to get a base line for year-over-year comparison to meet the needs of users, but he did not think that a realistic tax effect could be obtained and that it would be costly to attempt to do so. He noted that he was afraid the proposed disclosure provisions would lead to incomparable disclosures and that it would be more cost effective to require no disclosure and let each analyst apply a consistent methodology in making

estimates of prior year deferred tax assessments. Mr. Crooch stated that he did not think it was possible to go back and evaluate the deferred tax asset valuation for the previous year as if one was making the evaluation a year ago. He noted that it would be difficult for reporting entities to take advantage of an impracticability exemption under the scrutiny of the current audit environment.

9. Mr. Young stated that he would prefer allowing the use of hindsight in evaluating the deferred tax asset valuation for the prior year because it was important to provide users with another data point for their trend analysis. He added that the deferred tax asset amount calculated using hindsight would probably not be much different from what the GAAP number would have been, and some users might argue that it is more relevant. He noted that the final Statement would cause significant changes to many entities' balance sheets and this disclosure was important to help users understand the changes.
10. Mr. Leisenring stated that a calculation based on hindsight would not only be wrong, but it would also be misleading. He added that the calculation of numbers does not necessarily produce information and that this disclosure has a high probability of actually being disinformation. He noted that Statement 154 does not permit the use of hindsight and that the Board should not break this precedent. He asked that if hindsight was appropriate to use in this situation, why it would be inappropriate in other situations, such as reporting the prior year's fair value of the plan assets.
11. Mr. Herz noted that most reporting entities would not have a problem evaluating the prior year's deferred tax assets, with or without the use of hindsight, but that the entities whose balance sheets will be affected the most after implementing the proposed statements are also likely to have the greatest difficulty assessing the realizeability of the prior year's deferred tax assets, either on an actual basis or on a hindsight basis. He said that he was sullen that it was so difficult to craft a disclosure to get the users the information they wanted without imposing an excessive burden on the reporting entities.

Disclosure of the Effect of the Recognition Provisions Prior to Adoption

12. The Board unanimously agreed that a nonpublic entity, as defined for the effective date provisions of the Statement, must disclose in any financial statements issued for fiscal years ending after December 15, 2006, but before implementation of the final Statement, a description of the new standard, the date that adoption is required, and the planned adoption date.
13. The Board considered a disclosure that would have shown the effect on individual line items in the balance sheet had the Statement been applied for any financial statements issued for fiscal years ending after December 15, 2006, but before implementation of the final Statement. Mr. Batavick stated that he did not want to set a precedent by requiring entities that had been given a delayed effective date to have to apply the final Statement in a footnote. He added that while this information might be useful to the counterparties when contracts based on financial statement metrics are renegotiated, he did not think it was the Board's role to prescribe specific disclosures to aid this process. He also stated that one of the reasons the Board gave some entities a delayed effective date was to give them more time to become informed of the Statement's requirements, and requiring a detailed footnote would defeat that purpose. Mr. Crooch agreed with Mr. Batavick.
14. Mr. Linsmeier supported a detailed disclosure of what the effects of the final Statement would have been had it been implemented so that counterparties in contract renegotiations would have the information to make informed decisions. Mr. Batavick responded that banks and other users of the financial statements of nonpublic entities have the ability to request whatever additional information they require, so a detailed disclosure is not necessary. He added that he had supported a delay in the effective date for entities that do not have publicly traded equity securities because some of them needed more time to implement for reasons beyond contract renegotiations.
15. Mr. Young stated that the reason the Board gave the delayed effective date to entities that do not have publicly traded equity securities is to allow for contract renegotiation and that this disclosure would aid that process.

16. Ms. Seidman stated that she had reasons for supporting the delayed effective date other than contract renegotiations. She noted the idea that a detailed disclosure would provide information that would aid renegotiation was not compelling to her. She added that if creditors thought pension and other postretirement benefits were important to include in a debt covenant, then they would already be included in the debt covenant and there would not be a problem. In addition, she stated that the current disclosures in the footnotes are sufficient to give a counterparty a reasonable idea as to the impact of the final Statement on an entity's balance sheet.
17. Mr. Young stated that sometimes the counterparty is an employee whose compensation arrangement is based on book value, and these users do not always have the ability to command additional information from management. Mr. Cassel noted that these compensation agreements are not always negotiated, but rather unilaterally determined by the Board of Directors.
18. Mr. Herz noted that some Board members seemed to be in favor of some kind of disclosure that gave an early warning to counterparties in contracts based on book value that there might be significant changes in book value when the final Statement is implemented. He also noted the implementation issues that had been raised by some Board members. He proposed a disclosure that would simply state that entities would be required to implement the final Statement for the subsequent fiscal year without attempting to quantify its effects. He stated that he did not think that the Board had fully considered all of the ramifications of requiring entities with delayed effective dates to quantify the effects of the Statement. All Board members present expressed support for the disclosure Mr. Herz proposed.

Additional Disclosures Suggested by Respondents

19. The Board unanimously agreed not to expand the scope of Phase 1 to include other disclosures suggested by respondents. These disclosures will be considered in Phase 2 in conjunction with the Board's fundamental evaluation of employers' accounting for postretirement benefits. Mr. Proestakes noted that several of the suggested disclosures were considered by the Board when it issued FASB Statement No. 132(R), *Employers' Disclosures about Pensions and Other Postretirement Benefits*.

Mr. Young stated that the Board should not revisit these disclosures in Phase 1 of the current project, but that it should explore alternative formats of the existing disclosures separately in an FSP or in supplementary guidance released after the Phase 1 Statement in an effort to make the disclosures more understandable. Mr. Herz agreed and noted that moving existing disclosures to a more common format would make it easier to apply XBRL (eXtensible Business Reporting Language) to the disclosures.

Other Issues Raised by Respondents

20. The Board unanimously agreed not to expand the scope of Phase 1 to consider several other suggestions made by respondents. These issues included the selection of discount rates, the use of estimation, the option of simplified remeasurements during interim periods, and the effect of the Statement on hedging net investments in foreign subsidiaries.

Follow-up Items:

The Board instructed the staff to begin preparing a pre-ballot draft of the final Statement.

General Announcements:

None.