

MINUTES



To: Board Members
From: Nesta (ext. 330)
Subject: Minutes of the June 11, 2003 Board Meeting **Date:** June 12, 2003
cc: Bielstein, Leisenring, Seidman, Petrone, Smith, Swift, Polley, J. Johnson, Coburn, Tovey, Nesta, Cassel, Kazazean, Thompson, Allen (GASB), Bean (GASB), FASB Intranet (e-mail), Vernuccio, Sutay, Gabriele

Topic: Changes to Project Scope and Earnings Per Share

Basis for Discussion: Memorandum dated May 30, 2003

Length of Discussion: 10:15 a.m. to 10:30 a.m.

Attendance:

Board members present: Crooch, Foster, Herz, Schieneman, Schipper, Trott, Wulff

Board members absent: None

Staff in charge of topic: J. Johnson

Other staff at Board table: Bielstein, Leisenring, Cassel, Coburn, Kazazean, Nesta

Outside participants: None

Summary for ACTION ALERT:

The Board agreed with the IASB decision to remove the issues of joint ventures, proportionate consolidation, and accounting for hyperinflationary economies from

the project scope. The Board also added issues relating to earnings per share to the project scope and decided the following:

1. For annual and year-to-date computation of diluted earnings per share (EPS), the dilutive effect of options and warrants (and their equivalents) should be reflected by applying the treasury stock method for the year-to-date period independently from any interim computation. Options and warrants will have a dilutive effect under the treasury stock method only when the average market price of the common stock for the year-to-date period exceeds the exercise price of the options and warrants.
2. When an entity has issued a contract that may be settled either in shares or in cash at the entity's option, the entity should presume that the contract will be settled in shares if the effect is dilutive. That presumption may not be overcome, regardless of past practice or stated policy to the contrary.

Matters Discussed and Decisions Reached:

Mr. Johnson stated that the IASB removed the issues of joint ventures, proportionate consolidation, and the accounting for hyperinflationary economies from its short-term project's scope because those issues required more fundamental reconsideration than was possible in this project. He added that the IASB will continue work on those issues outside of the short-term project. He then asked Board members whether they objected to removing the issues from the scope of the project. No Board member objected.

Mr. Johnson then asked Board members whether they wanted to add two narrow issues related to the calculation of earnings per share. No Board member objected to adding the two issues.

Mr. Johnson stated that the first issue impacts the calculation of year-to-date and annual diluted earnings per share (EPS). The issue is the application of the treasury stock method to options, warrants, and their equivalents. He stated that both IFRS and U.S. GAAP compute potential common shares outstanding for interim periods the same way. He added that a difference arises in year-to-date

and annual calculations of potential common shares outstanding. Under the IASB approach, year-to-date and annual potential common shares are computed independently, using the same method used for interim periods. Under U.S. GAAP, the number of incremental potential common shares to be included in the denominator of the diluted EPS calculation is determined by computing a year-to-date weighted average of the number of incremental shares included in each quarterly diluted EPS computation. He noted that the IASB is concerned about adopting a method for which the denominator in year-to-date computations of EPS is affected by the frequency of reporting.

Mr. Johnson stated that both the IASB proposal and the U.S. GAAP approach represent practical approaches and that neither is grounded in any demonstrably superior theory. He stated that the staff agrees with the IASB that the denominator in year-to-date computations of EPS should not be affected by the frequency of interim reporting and recommended adoption of the IASB approach because it represents a high-quality solution that both Boards can accept.

The Board agreed with the staff recommendation and noted that the decision results in greater harmonization between U.S. GAAP and IFRS in the way earnings per share is calculated.

Mr. Johnson stated that if an entity issues a contract that may be settled in common stock or in cash *at the issuer's option*, U.S. GAAP requires a rebuttable presumption that the contract will be settled in common stock with the resulting shares included in diluted EPS if the effect would be dilutive. The presumption can be overcome if past experience or a stated policy provides a reasonable basis to conclude that the contract will be settled in cash. He stated that under IFRS, settlement in shares is always presumed if it is dilutive. The presumption cannot be overcome. He added that the staff recommended convergence with the IASB approach because it is more objectively verifiable and because it gives effect to all potentially dilutive securities.

The Board agreed with the staff's recommendation.

Follow-up Items:

None

General Announcements:

None