

**FASB Small Business Advisory Committee
MINUTES OF MEETING
June 21, 2006**

The FASB Small Business Advisory Committee met at the FASB offices in Norwalk, Connecticut.

Members Present

P. Glenn Bradley	Edward E. Nusbaum
Gary M. Cademartori	Neal A. Petrovich
Michael S. Cain	Darrel L. Posegate
Robert A. Dyson	Richard L. Reed
Mark Ellis	Charles L. Saeman
Richard E. Forrestel, Jr.	Leonard Steinberg
Richard H. Gesseck	Troy D. Templeton
William G. Hall	E. Anson Thrower
Gregory P. Hanson	Scott M. Waite
W. Stephen Holmes	Grafton H. Willey, IV
A. Donald Janezic	Deborah A. Wilson
Mauricio Kohn	Candace Wright

Members Absent

None

Others Attending

Financial Accounting Standards Board:

Robert H. Herz	Chairman
George J. Batavick	Member
G. Michael Crooch	Member
Leslie F. Seidman	Member
Edward W. Trott	Member
Donald M. Young	Member

FASB Staff:

Suzanne Q. Bielstein	Director of Major Projects and Technical Activities
Jeffrey D. Cropsey	Project Manager
Russell G. Golden	Senior Technical Advisor
Kevin H. McBeth	Project Manager
Kimberley R. Petrone	Senior Project Manager
Lawrence W. Smith	Director of Technical Application & Implementation Activities
Danielle T. Zeyher	Project Manager
Steven Arveseth	Postgraduate Technical Assistant

Others:

Frederick Gill	Senior Technical Manager—Accounting Standards, American Institute of Certified Public Accountants
Teresa S. Polley	Executive Director, FASB Advisory Groups, Financial Accounting Standards Advisory Council
Gregory Scates	Associate Chief Auditor, Public Company Accounting Oversight Board
Scott A. Taub	Acting Chief Accountant, Securities and Exchange Commission

Introductory Remarks

1. Mr. Batavick called the meeting to order at 9:00 a.m. and welcomed SBAC members to the meeting. He reported that, due to work-related constraints, the following SBAC members had resigned since the November 2005 meeting: Francis Jumonville, Steven Mayer, Lark Wysham, and Jane Hoffman. He thanked those members for their contributions. Mr. Batavick welcomed the following new SBAC members: Glenn Bradley, Gary Cademartori, Richard Gesseck, Donald Janezic, Neal Petrovich, Richard Reed, and Troy Templeton. Mr. Batavick thanked the members of the Agenda Committee for their help in developing the agenda for today's meeting.
2. Mr. Batavick also welcomed members of the Accounting and Reporting Standards Committee of the Connecticut Society of Certified Public Accountants and reported that FASB members had met with that committee to discuss the FASB's goal of encouraging more involvement from private companies and practitioners in the standard-setting process.

Report of the FASB Chairman

3. Mr. Herz reported on the following strategic and technical matters:
 - a. The recent issuance of the FASB Exposure Draft, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, which addresses the first phase of the FASB's comprehensive reconsideration of the accounting for postretirement benefit obligations. The comment period ended May 31, 2006, and the FASB has received approximately 240 comment letters. The FASB will hold two public roundtable meetings on June 27, 2006, and redeliberations will begin in July.
 - b. The potential FASB project to comprehensively reconsider the existing accounting for leases (FASB Statement No. 13, *Accounting for Leases*, and related literature). The Board likely will add the project to its agenda after the

International Accounting Standards Board (IASB) meets with its advisory group.

- c. The progress on the business combinations project. The Board began redeliberations on the FASB Exposure Drafts, *Business Combinations*, and *Consolidated Financial Statements, Including Accounting and Reporting of Noncontrolling Interests in Subsidiaries*, at the beginning of 2006. The Board reaffirmed some of the basic principles in those Exposure Drafts and will continue its redeliberations through the end of 2006.
 - d. The status of the revenue recognition project. The staff continues the development of a customer consideration approach at the principles level, similar to EITF Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables." The Board is currently resolving issues on revenue recognition of various deliverables in multi-element contracts, as well as revenue recognition for long-term contracts. A joint FASB-IASB Preliminary Views is planned for issuance in early 2007.
 - e. The expected issuance of a final Interpretation on uncertain tax positions in July 2006.
 - f. The status of Phase 1 of the fair value option project. The Board issued an Exposure Draft, *The Fair Value Option for Financial Assets and Financial Liabilities*, in January 2006; more than 70 comment letters have been received and analyzed, and a public roundtable will be held on June 26, 2006. The Board will begin redeliberations in August and anticipates issuing the final standard in the fourth quarter.
 - g. The proposed FASB Staff Position FAS 126-a, "Revision to the Definition of a Public Entity to Include an Obligor for Conduit Debt Securities."
4. Mr. Smith reported on the following technical application and implementation activities, EITF activities, and other activities:
- a. The status of the codification project. The mapping phase is nearly complete. Accordingly, the authoring phase has begun, along with the related editing phase. Upon completion of the editing phase, the Board plans to issue the codification for an extended public verification process in late 2007.
 - b. The status of the derivatives disclosure project, including the following three objectives of the staff's recommended disclosures: (1) to explain how and why an entity uses derivatives; (2) to provide an understanding of how derivatives and related hedged items are accounted for, especially when FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, provides a choice; and (3) to provide transparency and to discuss the overall impact that derivatives have on an entity's financial statements.

- c. The status of the AICPA Accounting Standards Executive Committee (AcSEC) project on loan losses. The AcSEC project began as a recognition and measurement project but was changed to a disclosure-only project at the request of the FASB. The FASB is awaiting the final draft of the document for clearance to issue it for a 90-day comment period.
 - d. A change in the EITF process. Tentative conclusions of the EITF are now exposed for a 30-day comment period. SBAC members and other constituents are encouraged to review the tentative conclusions and provide the FASB with comments.
 - e. Recent EITF discussions. At the June EITF meeting, the Task Force reached tentative conclusions on EITF Issues No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements," and No. 06-5, "Accounting for Purchases of Life Insurance—Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4, *Accounting for Purchases of Life Insurance*." The Task Force encourages constituents to review those tentative conclusions on the FASB website and provide comments.
5. Mr. Herz reported that the FASB recently added a full-time project manager as part of its not-for-profit initiative. Jeffrey Mechanick previously worked in the not-for-profit environment and will assist the FASB in determining the not-for-profit implications of each issue addressed by the Board.
 6. Mr. Batavick reported on the activities of the SEC Advisory Committee on Smaller Public Companies. He noted that the Committee made recommendations to the SEC about how to define a "smaller public company," capital formation, governance, accounting issues, and internal controls. On accounting issues, the Committee made the following recommendations to the SEC:
 - a. When the FASB provides an extended effective date for private companies, it should extend that same extended effective date to microcap companies.
 - b. The SEC should develop a safe-harbor protocol for the accounting for transactions that would protect well-intentioned preparers from regulatory or legal action when the process is appropriately followed.
 - c. The SEC should consider providing guidance for all public companies with respect to materiality related to previously issued financial statements.
 - d. The SEC should implement a *de minimis* provision for the application of auditor independence rules.
 - e. The FASB should strive for less complex and more objectives-based accounting standards.

7. Mr. Batavick opened the discussion to committee members for comments or questions.
8. A Committee member expressed concern about the FASB's intent for the future use of fair value measurements and requested clarification from Board members, noting the trepidation among small businesses that the FASB will require fair value measurements for all balance sheet items.
9. Ms. Seidman stated that the fair value measurement standard will not require any new fair value measurements. Rather, the standard will provide guidance on how to make fair value measurements already required in GAAP. She further stated that the intent of the fair value option project is to provide an option to companies who believe that fair value measurement would provide more relevant information. Ms. Seidman noted that one of the objectives of the FASB's joint conceptual framework project with the IASB is to develop a method for analyzing different kinds of measurement attributes and to determine when it is appropriate to use those attributes. She stated that fair value measurement likely will not be deemed to be the appropriate measurement attribute under all circumstances.
10. Mr. Trott noted that a long-term objective of the FASB and IASB is to require fair value measurement of all financial instruments based on their exchangeability and separability. Mr. Trott stated that he hopes the fair value option would provide reporting entities with the opportunity to simplify their accounting procedures and to eliminate the mixed-attribute model for financial instruments. He stated that the Board will be cautious in the application of the fair value option to nonfinancial assets and nonfinancial liabilities.
11. Mr. Batavick noted the need for a greater education effort to clarify that the FASB does not intend to require fair value measurement for all assets and liabilities in the short term.

Report from the SEC

12. Mr. Taub reported on the following matters:
 - a. Personnel:
 - (1) SEC Commissioner Glassman decided not to stand for a second term. Pending a Senate confirmation vote, Kathleen Casey will be Ms. Glassman's replacement. Upon approval, that change will take place in July 2006.
 - (2) Federal Reserve Board Governor Mark W. Olson has been appointed Chairman of the PCAOB. Mr. Olson will assume that position in July 2006.
 - b. The SEC Advisory Committee on Smaller Public Companies has made recommendations to the SEC, including several recommendations about internal

control reporting. Specifically, the committee recommended full exemption from internal control reporting for companies with market capitalizations less than \$125 million and partial exemption from the auditor internal control reporting requirements for companies with market capitalization between \$125 million and \$780 million. The SEC and PCAOB held a roundtable discussion in May 2006 on Section 404 of the Sarbanes-Oxley Act, following the second year of compliance for accelerated filers. The SEC also obtained feedback through responses submitted on its website. The SEC issued a press release in May 2006 that described several actions the SEC plans to take on internal control reporting, including (1) providing nonprescriptive guidance in the form of a Concepts Release for management on how to assess internal control effectiveness and (2) extending the compliance date for internal control reporting requirements for nonaccelerated filers from fiscal years ending after July 15, 2007, to fiscal years ending after December 15, 2007. The SEC also will consider requiring only management's assessment of internal controls for the first year for nonaccelerated filers and then both management's and auditor's assessments thereafter.

- c. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) issued a document for public comment in the fall of 2005 with proposed guidance related to the application of the COSO internal control framework in smaller public company environments. The final guidance is expected to be issued in the summer of 2006.
 - d. The SEC continues to study the use of XBRL as a means of making information included in SEC filings more accessible to investors, analysts, and other users of those filings. The SEC held an Interactive Data Roundtable on June 12, 2006, and received input on the usefulness of XBRL and how the SEC could encourage the development of XBRL. The SEC is working to remove obstacles to encourage broader market usage of XBRL. The SEC is not drafting rules that would require the use of XBRL at this time.
13. Mr. Taub opened the discussion to Committee members for comments or questions. A Committee member asked about the SEC Advisory Committee on Smaller Public Companies' recommendation on the scaling of securities regulations for smaller public companies. Mr. Taub noted that securities regulations in various areas could be scaled, but that the SEC, at present, does not believe that scaling should include broad exemptions from Section 404 for smaller public companies.

Report from the PCAOB

14. Mr. Scates reported on the following matters:
- a. Mark W. Olson will become the Chairman of the PCAOB in July 2006. Bill Gradison, current acting Chairman, will remain on the PCAOB. Kayla Gillan, PCAOB Board member, has been reappointed.

- b. On May 17, 2006, following the joint SEC-PCAOB roundtable, the PCAOB announced a four-point plan to improve auditors' implementation of the internal control reporting provisions of the Sarbanes-Oxley Act. Those four initiatives include:
- (1) Amend PCAOB Auditing Standard No. 2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction with an Audit of Financial Statements*. While preserving the principles of Auditing Standard 2, the PCAOB plans to consider amendments that would ensure that the auditors' primary focus during an integrated audit is on areas that pose higher risk of fraud or material error. The amendments to be proposed would reinforce the PCAOB's expectation that the integrated audit be conducted in the most efficient manner, while achieving the objectives of the standard, by incorporating key concepts contained in the guidance issued by the PCAOB on May 16, 2005. The PCAOB also plans to revisit and clarify the auditor's role, if any, with respect to evaluation of the process that a company uses to reach its own conclusion about the effectiveness of company controls.
 - (2) Reinforce auditor efficiency through PCAOB inspections. As the PCAOB described in a statement issued May 1, 2006, the PCAOB's 2006 inspections of registered public accounting firms will focus on the firms' efficiency in conducting internal control audits, as emphasized in the PCAOB's May 2005 Policy Statement.
 - (3) Provide guidance and education for auditors of small companies. The PCAOB plans to develop or facilitate development of implementation guidance for auditors of smaller public companies. In addition, the PCAOB plans to explore various means of facilitating opportunities for auditors of smaller public companies to obtain effective training on auditing internal control over financial reporting.
 - (4) PCAOB forums on auditing in the small business environment. The PCAOB will hold a total of eight forums during 2006 for the auditors, directors, and financial officers of smaller public companies. In addition to providing general education about PCAOB issues, the PCAOB will use these forums to monitor the reaction to the various internal control-related implementation changes that are announced throughout the year.

The PCAOB's Standing Advisory Group (SAG) met in Washington D.C. on June 12-13, 2006. SAG discussed:

- 1) The staff's recommended changes to Auditing Standard No. 2.
- 2) Implementation of Section 404 and Auditing Standard No. 2, which included company-level controls and auditor's involvement in management's assessment of internal controls.

- 3) Implication of information disclosed over the past two years about internal control weaknesses and the Research Synthesis Program related to auditing fair value and auditors' risk assessments.
 - 4) Backdating of stock options; the group recommended that the PCAOB consider developing some guidance related to that issue.
- c. The PCAOB's rules on auditor independence, tax services, and contingent fees were approved by the SEC in April 2006.
 - d. In June 2006, the PCAOB released staff questions and answers, "Adjustments to Prior-Period Financial Statements Audited by a Predecessor Auditor," to provide guidance to auditors that are auditing adjustments to prior-period financial statements that were audited by another auditor.
 - e. The PCAOB proposed rules for periodic reporting by registered accounting firms. The reporting framework proposed by the PCAOB includes two types of reporting obligations. First, the proposal would require each registered firm to provide basic information once a year about the firm and the firm's issuer-related practice over the most recent 12-month period. Second, the proposal identifies certain events that, if they occur with respect to a registered firm, must be reported by the firm within 14 days.
 - f. As of June 6, 2006, 1,674 firms were registered with the PCAOB; 967 are U.S. registered firms. The 707 non-U.S. registered firms are located in 81 countries. Since inception of the PCAOB, 113 firms have withdrawn their registration.

Private Company Financial Reporting

- 15. Mr. Batavick reported that in June 2006, the Board and the AICPA jointly released the Invitation to Comment, *Enhancing the Financial Accounting and Reporting Standard-Setting Process for Private Companies*, which is a proposal to improve the financial reporting process for private companies.
- 16. Mr. Golden stated that while gathering constituent views prior to the issuance of the Invitation to Comment, the FASB and the AICPA discovered a lack of understanding of the Board's current process for determining whether there should be differences in measurement, recognition, effective date, or transition for private companies when new accounting guidance is issued. He stated that the primary reason for that lack of understanding may be that the Board discusses those differences in public meetings only when the Board decides there should be a difference based on user needs or cost-benefit considerations. Therefore, the FASB has made a fundamental change to its process that will require the FASB staff to ask the Board in a public meeting if it believes there should be a difference in measurement, recognition, effective date, or transition for private companies in all major projects. Accordingly, the Board will include its rationale for arriving at its conclusion, even if the Board decides there should not be a difference.

17. Mr. Golden noted that in future exposure documents, the Board will ask constituents whether they agree with the Board's rationale for including or excluding a difference for private companies. Mr. Golden stated that the Board hopes that the procedural change will drive more focus on the Board's process related to private company financial reporting and that the Board will obtain more input.
18. Mr. Golden stated that the Board and the AICPA are proposing to create a new technical committee with representation from a cross-constituent base of auditors, preparers, and users. The new committee will have 11 noncompensated members and a part-time compensated chair. The committee would be supported by staff resources from both the FASB and the AICPA and its meetings would be public. Mr. Golden stated that ideally the primary participant base on the committee will have a private company background. However, the committee also will include members with both public and private company backgrounds.
19. Mr. Golden stated that the committee will have three primary objectives: (a) to assist the Board and the staff in their research efforts on specific projects as to whether there should be differences in generally accepted accounting principles for private companies based on different user needs or cost-benefit considerations; (b) to consider the Board's decision as to whether on specific projects there should be such differences and provide a recommendation to the Board for consideration during the redeliberation phase; and (c) to examine existing generally accepted accounting principles and make recommendations to the Board on whether existing generally accepted accounting principles in particular areas should be changed for private companies. Mr. Golden noted that the committee would not have the authority to modify or amend existing generally accepted accounting principles for private companies.
20. Mr. Golden reported that the FASB has hired one staff member and is actively recruiting at least one more staff member with a private company background to assist the Board in understanding the impact its decisions will have on private companies. Those individuals also would assist the staff in preparing its recommendations to the Board as to whether there should be differences in generally accepted accounting principles for private companies.
21. Committee members expressed the following views:
 - a. There should be limited situations that require measurement or recognition differences, but there may be more situations that require differences in effective date, transition, or disclosure requirements.
 - b. The Board should consider including representatives from diverse environments including commercial banking, private equity funds, and private and public companies of different sizes on the committee to represent a significant portion of the users and preparers of private company financial statements.

- c. Quarterly meetings may not provide sufficient time for the committee to deliberate and prepare recommendations to the Board in a timely manner.
- d. The size of committee may not be sufficient to deal with turnover that may arise due to the volunteer status of committee members and the demands of those members in their full-time positions. Based on the scope of the committee's objectives, committee members may be required to devote a significant amount of time to those objectives, and therefore all members should be compensated.

Conceptual Framework

- 22. Mr. Crooch stated that the conceptual framework project is a joint project with the IASB and is intended to resolve the issues with the existing conceptual frameworks in addition to creating a conceptual framework that will be consistently applied to all of the Boards' projects. Mr. Crooch noted that in July 2006, the Boards each will publish for public comment an IASB Discussion Paper and FASB Preliminary Views, *Conceptual Framework for Financial Reporting: Objective of Financial Reporting and Qualitative Characteristics of Decision-Useful Financial Reporting Information*.
- 23. Mr. Crooch reported that the Board's deliberations of the definitions of assets and liabilities are underway. The next phase of the project will address measurement.
- 24. Mr. McBeth noted that in April 2006, the Board approved a plan for the measurement phase of the conceptual framework project. The plan envisions filling the accounting measurement void in the existing conceptual framework by defining the various measurement bases, describing their strengths and weaknesses, and providing a conceptual foundation for determining the circumstances in which the measurement bases can provide the most useful information for various decision makers. He referred to the questions in the discussion materials and asked Committee members to comment on the measurement bases identified.
- 25. Committee members expressed the following views:
 - a. The Board should use the qualitative characteristics it develops as part of the conceptual framework project to drive the measurement bases.
 - b. Historical cost measurement does provide relevant information to the users of small business financial statements. The Board should not conclude that current value is the most relevant measurement for all assets and liabilities.
 - c. There are many notions of current value to be considered, including entrance cost, exit cost, and value in use.
 - d. The extensive use of current value as a measurement basis may cause difficulty for financial statement users in separating (1) gains and losses on the statement of operations due to changes in current values from (2) gains and losses due to the actions of management and the other operations of the company.

- e. The use of current value as a measurement basis may cause difficulty for analysts and acquisitive companies in performing valuations based on cash flows, because the historical cash flows may be difficult to derive from the current value measurements.

Insurance Risk Transfer

26. Mr. Crooch stated that under current accounting guidance, insurance contracts with both insurance components and financing components generally are accounted for as either insurance or financing in their entirety. Accounting for an entire contract as either insurance or financing places significant pressure on determining the minimum level of risk transfer that satisfies the significant risk transfer condition required for insurance contract accounting. Mr. Crooch noted that the Board added the insurance risk transfer project to its agenda to address reported alleged abuses of accounting for certain insurance contracts, including reinsurance contracts.
27. Mr. Cropsey stated that in May 2006 the Board issued the Invitation to Comment, *Bifurcation of Insurance and Reinsurance Contracts for Financial Reporting*, for a 90-day comment period. He noted that the Board has not deliberated the issues included in the Invitation to Comment. The Invitation to Comment is intended to gather information from constituents to assist the Board in its future deliberations. Mr. Cropsey noted that the Board is seeking comments from all parties to an insurance contract including policyholders, insurers, and reinsurers, as all of those parties could be affected by the bifurcation of insurance contracts.
28. Mr. Cropsey stated that bifurcation of insurance contracts would divide some or all insurance contracts into two components: insurance and financing. Components that transfer significant insurance risk would be accounted for as insurance. For policyholders, premiums would be expensed during the contract period; the occurrence of an insured event would generate an insurance recovery that would be recorded as a gain in the income statement. Components that represent financing arrangements would be accounted for as deposits. For policyholders, premiums would be recorded as an asset; the recovery from an insured event would be a reduction to the deposit with no income statement benefit.
29. Committee members expressed the following views:
 - a. In practice, many insurance contracts accounted for under current accounting guidance as insurance contracts do not transfer risk to the insurer. Current accounting guidance essentially provides a means for a company to control the timing of income. Therefore, a review of the accounting for insurance contracts is necessary.
 - b. The mathematical models used to determine bifurcation may require a significant amount of historical data that may not be currently available to insurance companies.

- c. Smaller companies may incur significant costs to determine the proper valuation and bifurcation of their insurance contracts. Additionally, that information may not be relevant to the users of those smaller companies' financial statements. The Board should therefore consider whether the information is cost beneficial for smaller companies.
- d. The Board should consider the inclusion of a risk transfer threshold for requiring bifurcation.

Financial Statement Presentation

- 30. Mr. Young stated that the financial statement presentation project is divided into three phases. Phase A addresses what constitutes a complete set of financial statements and requirements to present comparative information. Phase B addresses the fundamental issues of presentation of information on the face of the financial statements. Phase C will address interim reporting.
- 31. Mr. Young stated that Phase A deliberations have been completed and will not have a significant effect on domestic preparers or users. The FASB and IASB are currently deliberating issues in Phase B. Mr. Young described the seven working principles of Phase B as outlined in the discussion materials. He asked Committee members for their input on the working principles.
- 32. Committee members expressed the following views:
 - a. The current liquidity approach that is used for assets and the liquidation approach for liabilities is fundamental in the analysis of financial statements.
 - b. The balance sheet should retain the current and long-term categorizations.
 - c. The determination of the proper classification of components in the categorization scheme may be difficult for companies with diversified operations.
 - d. The categorization scheme should require the direct method for presentation on the statement of cash flows.
 - e. Small companies may have difficulty configuring their accounting systems to generate financial statements in conformity with a new categorization scheme.
 - f. A hybrid of presentation by nature and function would provide a user with better information for determining how well a business is operating. There should be flexibility in reporting format across different industries.
 - g. Users of private company financial statements generally are able to obtain the financial information they require directly from the company. Therefore, requiring a standard reporting format may not improve the usefulness of financial statements to those users.

- h. The designation of one reporting format would not provide meaningful information for all industries. For example, a different reporting format should be developed for financial services companies. Those companies should be considered throughout the deliberations of reporting formats.
- i. During the transition period, a company will need to present prior periods in conformity with the new categorization scheme to facilitate comparison.

Lease Accounting

- 33. Ms. Zeyher stated that in July 2006 the IASB and the FASB will decide whether to add a project to their agendas to comprehensively reconsider the existing accounting for leases. She noted that the project would explore whether lease transactions give rise to an asset resulting from the right to use another asset and to a corresponding liability to pay for that right of use.
- 34. Ms. Zeyher noted that the FASB staff is currently developing a project plan for the lease project. The staff requests that Committee members provide comments and issues for consideration from the perspective of preparers, auditors, and users of small business financial statements. Specifically, the staff is asking Committee members how the users of small business financial statements consider operating and capital leases in their analyses, and whether they view lease transactions as giving rise to debt-like obligations that should be reported in the statement of financial position. In addition, the staff would like to know what type of assets small businesses lease and why, and whether there are specific issues that arise from those lease transactions that Board members should consider in the lease accounting project.
- 35. Committee members expressed the following views:
 - a. Many lease transactions are structured around the existing accounting guidance to achieve operating lease treatment for transactions that are economically similar to purchases.
 - b. Although there are problems with the existing accounting guidance for leases, there should continue to be a distinction between capital leases and operating leases. The capitalization of short-term operating leases would only result in a gross up of the balance sheet where the right-of-use for an asset would be offset by the corresponding liability.
 - c. The Board should address lease accounting in the context of the definitions of assets and liabilities in the conceptual framework.
 - d. Most of the focus of lease accounting is on the balance sheet; however, the effects on the statement of operations should reflect the economics of the lease transaction.
 - e. There should be a materiality threshold for lease capitalization.

36. Committee members suggested that the Board and staff need to consider the following questions related to the lease project:
- a. How would leases be recorded by the lessor? If the lessor already has the leased asset on its books, then would the lessor also record a separate asset for the future rental income?
 - b. How would contingent payments affect the recorded right-of-use for an asset and the corresponding liability?

Other Current Issues and Adjournment

37. Mr. Batavick opened the discussion to Committee members for comments or questions on other small business issues.
38. A Committee member noted many practice issues with respect to EITF Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock." He requested that the Board consider addressing the various interpretations and diversity in practice relating to that Issue.
39. Regarding the proposed FSP FAS 126-a, a Committee member noted that certain situations may exist in which the financial statements of an issuer of a conduit debt security may be separate from the holder of that security. For example, a bank may provide a guarantee to the holder of the debt security and thereby relieve the issuer of any obligation to the holder. Those situations should be considered in the redeliberations of FSP FAS 126-a.
40. A Committee member requested that the Board consider requiring the use of the direct method for reporting an entity's cash flows from operating activities on the entity's statement of cash flows.
41. Mr. Batavick thanked the Committee members and observers for their input and participation. He adjourned the meeting at 2:40 p.m.