MINUTES

Financial Accounting Standards Board

To: Board Members

From: Mussatt (ext. 273)

Subject: Minutes of November 24, 2008 Board Meeting: Ratification of EITF Consensuses and Consensuses-for-Exposure

Date: December 3, 2008

cc: Golden, Bielstein, Stoklosa, Proestakes, Malcolm, Anderson, Bonn, Elsbree, Homant, Inzano, Maples, Mills, Moritz, Reager, Mussatt, Allen, Gabriele, Posta, Chookaszian, Richter, Leisenring, Bean, 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 EITF 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 the consensuses reached on EITF Issues Nos. 08-6, 08-7, and 08-8, and the consensuses-for-exposure reached on EITF Issues Nos. 08-1 and 08-10
Basis for Discussion:	Board Memorandum dated November 18, 2008
Length of Discussion:	8:20 a.m. to 8:50 a.m.

Attendance:

Board members present:	Herz, Linsmeier, Seidman, Siegel, and Smith
Staff in charge of topic:	Malcolm
Other staff at Board table:	Golden, Stoklosa, Mussatt, and Reager
Outside participants:	None

Summary of Decisions Reached:

The Board considered and ratified the following consensuses reached at the November 13, 2008 EITF meeting.

1. Issue No. 08-6, "Equity Method Investment Accounting Considerations." One Board member dissented from the ratification of this Issue.

2. Issue No. 08-7, "Accounting for Defensive Intangible Assets."

3. Issue No. 08-8, "Accounting for an Instrument (or an Embedded Feature) with a Settlement Amount That Is Based on the Stock of an Entity's Consolidated Subsidiary."

The Board also considered and ratified the following consensuses-for-exposure reached at the November 13, 2008 EITF meeting.

1. Issue No. 08-1, "Revenue Arrangements with Multiple Deliverables." The Board agreed to a 60-day comment period that will end on January 30, 2009.

2. Issue No. 08-10, "Selected Statement 160 Implementation Questions." The Board agreed to a comment period ending on December 26, 2008.

Objective of Meeting:

The objective of the meeting was for the Board to ratify the consensuses reached at the November 13, 2008 EITF meeting on three Issues and the consensuses-for-exposure reached on two additional Issues. The objective of the meeting was met.

Matters Discussed and Decisions Reached:

RATIFICATION OF CONSENSUSES

Issue 08-6, “Equity Method Investment Accounting Considerations”

1. Ms. Malcolm asked for comments from the Board on the consensus reached by the Task Force on Issue 08-6.

Issue 08-6 Board Vote

2. The Board agreed to ratify the consensus reached in Issue 08-6 (Mr. Smith dissented).

Issue 08-6 Board Comments

3. Mr. Smith stated that, due to his concerns with the complexity and the practicability of the consensus, he intends to dissent on this Issue. Mr. Smith believes that this Issue provided the Task Force with the opportunity to simplify the impairment model for equity method investments; however, he believes that the Task Force consensus does not represent such a simplification. Mr. Smith argued that many preparers do not have the information necessary to apply the guidance in Opinion 18 that directs preparers to account for an equity method investment as if it were a consolidated subsidiary. He questioned how an overall other-than-temporary impairment charge would be applied to the individual underlying assets and liabilities of an equity method investment.

4. Ms. Malcolm elaborated on the particular issue at the center of Mr. Smith's concern. The Task Force concluded that an entity should apply an other-than-temporary impairment model to an equity method investment, but should not test the underlying assets separately for impairment. However, if the *investee* takes an impairment charge on assets that the investor has recorded, then the investor should recognize adjustments related to the difference between the investor's allocated cost and the investee's basis in the underlying assets. Ms. Malcolm clarified that Mr. Smith was referring to practical difficulties with this accounting that he does not believe are addressed by the Task Force's consensus.

5. Mr. Golden and Mr. Linsmeier provided their understanding of Mr. Smith's views. Mr. Golden clarified that the Task Force came to a conclusion that is consistent with Opinion 18, but Mr. Smith wanted the Task Force to go further and simplify the accounting for impairments of an equity method investment. Mr. Linsmeier further clarified Mr. Smith's views, stating that the unit of accounting for impairment is generally the equity investment. However, if the investee is the one who takes the impairment, then the unit of accounting becomes the underlying assets of the equity investment.

6. Ms. Seidman agreed with Mr. Golden that the Task Force's consensus is consistent with Opinion 18.

7. Mr. Herz noted that complexities arising from the difference between the investor's inside and outside bases of the investment are not limited to impairment issues; the different bases also create complications in the investor's accounting for the investee's income under the equity method.

Issue 08-7, "Accounting for Defensive Intangible Assets"

8. Ms. Malcolm asked for comments from the Board on the consensus reached by the Task Force on Issue 08-7.

Issue 08-7 Board Vote

9. The Board agreed to ratify the consensus reached in Issue 08-7.

Issue 08-8, "Accounting for an Instrument (or an Embedded Feature) with a Settlement Amount That Is Based on the Stock of an Entity's Consolidated Subsidiary"

10. Ms. Malcolm asked for comments from the Board on the consensus reached by the Task Force on Issue 08-8.

Issue 08-8 Board Vote

11. The Board agreed to ratify the consensus reached in Issue 08-7.

RATIFICATION OF CONSENSUSES-FOR-EXPOSURE

Issue 08-1, "Revenue Arrangements with Multiple Deliverables"

12. Ms. Malcolm asked for comments from the Board on the consensus-for-exposure reached by the Task Force on Issue 08-1. Given that the consensus-for-exposure

represents a fairly significant change to revenue recognition accounting and that the comment period will coincide with the holiday season, the staff recommended a 60-day comment period.

Issue 08-1 Board Vote

13. The Board agreed to ratify the consensus-for-exposure reached in Issue 08-1.

Issue 08-1 Board Comments

14. Mr. Linsmeier asked the staff whether any significant Task Force suggestions or early feedback on the consensus-for-exposure had been received. Ms. Malcolm stated that some preparers have expressed interest in early adoption of the Issue and they would encourage the finalization of the Issue in a fairly quick manner. Ms. Malcolm noted that the Task Force will be working on an additional project related to Statement of Position 97-2. The Task Force has noted that it would be desirable to have consistent effective dates for any changes resulting from this additional project, which would make it difficult to complete Issue 08-1 on a more accelerated basis.

15. Ms. Seidman was opposed to allowing the early adoption of the Issue for a mid-year quarter. She stated that a change affecting revenue must be implemented at the beginning of a preparer's fiscal year. Mr. Golden noted that the Board could require early adopters to apply the Issue retrospectively to the previous quarters of the current fiscal year. Ms. Seidman responded that the FASB has been criticized heavily in the past for allowing implementation similar to Mr. Golden's suggestion. Past criticisms have included arguments that the mid-year implementation creates confusion among users and causes a misalignment with previously forecasted earnings.

16. Ms. Seidman asked the staff to include a question for respondents about mid-year early adoption of the Issue. Mr. Linsmeier requested that the staff make an effort to get feedback on this question from users because a mid-year shift in revenue due to the adoption of a new standard may be especially problematic for users.

17. Mr. Linsmeier expressed concern about whether the meaning of expected selling price, particularly in the third-tier estimate, is clear. Ms. Malcolm stated that the staff plans

to ask respondents whether they think they can apply the provided guidance to estimate expected selling price.

18. Mr. Smith requested that the staff monitor the number of comment letters received in response to this Issue, and compare it to the number of comment letters received on Issue 00-21. He noted that if the Board does not receive many comment letters, it may be an indicator that the length of the comment period is not adequate and that the Board needs to reconsider the timing of redeliberations. Ms. Seidman agreed, and stated that she has heard constituents express the need for more time to comment on Issues.

19. Mr. Golden agreed with Mr. Smith, but stated that constituents will likely deem this Issue as being more favorable than Issue 00-21. He noted that the Board usually receives more comments when an Issue is considered unfavorable. Mr. Golden stated that the timing of redeliberations on Issue 08-1 may also be impacted by the progress of the project on Issue 97-2; he argued that the new project on Issue 97-2 should have the same effective date as Issue 08-1.

Issue 08-10, "Selected Statement 160 Implementation Questions"

20. Ms. Malcolm asked for comments from the Board on the consensus-for-exposure reached by the Task Force on Issue 08-10. The staff recommended a comment period ending on December 26, 2008, so that the Issue may be finalized at the January EITF meeting.

Issue 08-10 Board Vote

21. The Board agreed to ratify the consensus-for-exposure reached in Issue 08-10.

Issue 08-10 Board Comments

22. Ms. Seidman was pleased that the consensus-for-exposure included a modification of certain paragraphs in ARB 51 to only apply when the subsidiary is a substantive entity. However, Ms. Seidman questioned why only those specific paragraphs were modified. She questioned whether limiting the modifications to only those paragraphs, rather

than stating that all of ARB 51 applies only to procedures related to substantive entities, would have unintended consequences. Mr. Golden noted that paragraphs 32 through 37 focus on a change in a parent's ownership interest of a subsidiary—guidance the staff was concerned entities may try to use to circumvent Statement 160. The rest of ARB 51 focuses on when to consolidate.

23. Ms. Seidman also expressed concern that the definition of a subsidiary in Statement 160 includes a reference to trusts. She proposed that the Issue clarify that a single asset placed in a trust does not qualify as a subsidiary that is a substantive entity. Ms. Seidman suggested that the exposure document ask respondents whether they believe it is clear what substantive means.

Follow-up Items:

24. None.

General Announcements:

25. None.