

#### **Board Meeting Handout**

#### EITF Agenda Requests<sup>1</sup> May 1, 2013

At today's meeting, the Board will consider adding three proposed issues to the EITF agenda.

### Issue 1: Application of Diluted EPS for Equity-Linked Contracts That Are Accounted for as Liabilities

The underlying issue is how a reporting entity should consider equity-linked contracts in the scope of this issue when computing diluted EPS.

#### Scope

This issue applies to all equity-linked contracts that are accounted for as liabilities and are presumed to be share-settled for earnings per share (EPS) purposes. This issue does not apply, however, to equity-linked contracts that (a) require the entity to repurchase its own stock (for example, written put options and forward purchase contracts other than forward purchase contracts accounted for under Topic 480, Distinguishing Liabilities from Equity) and (b) are options held by the entity on its own stock (for example, purchased put options and purchased call options). Both of these types of contracts are specifically addressed in paragraphs 260-10-45-35 through 45-37.

#### Alternatives

Alternative A: A reporting entity should apply a two-step approach. First, any gain or loss associated with such contracts would be reversed through an adjustment to the numerator. Second, the treasury stock method should be applied and potential common shares added to the denominator if the impact would be dilutive.

Alternative B: A reporting entity should apply the treasury stock method only to contracts that are in the money. For those contracts, the numerator would be adjusted for the reversal of any associated gains/losses when assessing whether the effect would be dilutive. If the result is anti-dilutive, diluted EPS would be the same as basic EPS.

Alternative C: A reporting entity should not make any adjustments to the numerator or denominator for such contracts if the entity reports a loss from continuing operations.

<sup>&</sup>lt;sup>1</sup> The alternative views presented in this handout are for purposes of discussion by the Board. No individual views are to be presumed to be acceptable or unacceptable applications of Generally Accepted Accounting Principles until the Board adds the issue to Task Force's agenda, the Task Force makes such a determination, exposes it for public comment, and it is ratified by the Board.

#### Question for the Board

**Question 1:** Does the Board wish to add proposed Issue 1 to the EITF agenda?

## Issue 2: Determination of Whether a Performance Condition That Is Allowed to Be Met after the Requisite Service Has Been Provided by the Employee Is a Vesting Condition or a Nonvesting Condition

The underlying issue is whether the terms of share-based payments that include a performance condition and allow the employee to earn the awards even if the performance condition is met after the requisite service has been provided by the employee are a vesting condition that affects the recognition of compensation cost or a nonvesting condition that is incorporated into the measurement of the grant-date fair value of the awards.

#### Alternatives

Alternative A: The terms of the awards are a vesting condition that affects the recognition of compensation cost.

Alternative B: he terms of the awards are a nonvesting condition that is incorporated into the measurement of the grant-date fair value of the awards.

#### Question for the Board

**Question 2:** Does the Board wish to add proposed Issue 2 to the EITF agenda?

## Issue 3: Reclassification of Collateralized Mortgage Loans upon a Troubled Debt Restructuring and Accounting for the Effect of a Federal Housing Administration Guarantee

The first underlying issue is when a creditor should be considered to have taken physical possession of a property collateralizing a loan, such that the loan should be re-categorized.

#### Alternatives

Alternative A: A creditor should be considered to have taken physical possession of property collateralizing a loan such that the loan should be re-categorized only when the creditor obtains legal title to the real estate collateral.

Alternative B: A creditor should be considered to have taken physical possession of property

collateralizing a loan such that the loan should be re-categorized when the creditor obtains sole access to the real estate collateral.

Alternative C: A creditor should be considered to have taken physical possession of property collateralizing a loan and the loan should be re-categorized when the creditor's primary risk is real estate risk, which may occur when the creditor obtains shared access to the real estate collateral.

The second underlying issue is how a creditor should account for loans on residential properties fully guaranteed by the Federal Housing Administration (FHA).

#### Alternatives

Alternative A: Record two units of account: Foreclosed real estate as other real estate owned (OREO) and FHA Guarantee Amounts as Other Receivable.

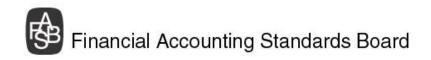
Alternative B: Reclassify the Loan, but Recognize the Foreclosed Real Estate at the Recorded Loan Balance (including the Guarantee).

Alternative C: Continue to classify as loans (to the FHA).

Alternative D: Reclassify the loan as Other Receivable for the pending claim of the total recorded loan balance, interest, and fees expected to be paid by the FHA

#### Question for the Board

**Question 3:** Does the Board wish to add proposed Issue 3 to the EITF agenda?



# Board Meeting Handout Private Company Council FASB Agenda—A Proposal for a Standing PCC Agenda Item May 1, 2013

#### **Purpose of this Meeting**

1. The purpose of this meeting is for the Board to consider adding to the FASB agenda a staff-proposed, streamlined process that includes a perpetual agenda project or projects to consider the decisions of the Private Company Council (PCC).

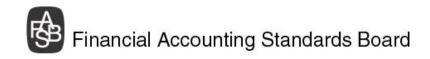
#### Proposal—A Perpetual (or standing) Agenda Project

- 2. The perpetual agenda project would have the following two objectives:
  - a. To monitor and consider proposed and final alternatives for private companies within U.S. GAAP, as proposed by the PCC, in accordance with the endorsement process established by the FAF.
  - b. To determine whether PCC proposed and final alternatives also are appropriate for public companies and/or not-for-profit organizations (NFPOs).
- 3. The staff is recommending this approach for several reasons:
  - a. Under procedures designed by the FAF, the FASB is required to consider all proposed and final alternatives submitted by the PCC. Adding a perpetual project to the FASB agenda streamlines the process by eliminating the need for an FASB agenda decision every time the PCC modifies its agenda (adds, drops, or modifies a project).
  - b. It also streamlines the process by eliminating the need for periodic FASB agenda decisions to consider the applicability of PCC proposals to public companies and NFPOs.
  - c. A perpetual agenda project communicates to stakeholders the FASB's intent to continuously monitor and timely consider PCC proposals and their potential applicability to public companies and NFPOs.

#### Question regarding proposal to establish a perpetual agenda project

Question: Does the Board agree with the staff proposal that the Board add to its technical agenda a perpetual project with the two objectives described in paragraph 2 above?

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#### **Board Meeting Handout**

NFP: Other Financial Communications
May 1, 2013

#### **Background**

1. The purpose of this handout is to provide an aid to the audience while observing the Board discussion. The staff will provide the Board with the results of the research performed to date on both (i) other financial communication frameworks that exist today and (ii) financial communications in the not-for-profit sector. At the conclusion of the Board meeting, the staff plans to ask the Board for feedback in terms of next steps for this research project. The staff has outlined a variety of alternatives for the Board's consideration, including the staff recommendation that the Board issue an Invitation to Comment to solicit input and feedback from a broader group of users, preparers and other interested stakeholders.

#### Origin of Project

- 2. At the September 2011, Not-for-Profit Advisory Committee (NAC) meeting, the NAC members identified four areas for improvement in financial reporting for the NFP sector. Those four areas for improvement have the following objectives:
  - (a) To improve current net asset classification scheme, in conjunction with improving how liquidity is portrayed in an NFP's statement of financial position and related notes

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- (b) To improve the statements of activities and cash flows to more clearly communicate financial performance, by better disaggregation and classification of information within the statement of activities and better cohesiveness between the statements
- (c) To develop a framework for an NFP's directors and management to provide commentary and analysis about the organization's financial health, operations, and liquidity
- (d) To review existing NFP-specific disclosure requirements to streamline where possible and otherwise improve their relevance and understandability.
- 3. Following the NAC meeting, the Board held three meetings to determine whether one or more projects should be added to the agenda to address the recommendations of the NAC. On November 9, 2011, the Board added two projects to the agenda: a standard-setting project encompassing areas (a), (b) and (d) and a research project to study communications other than financial statements that NFP entities use to tell their financial story (area (c)). This memo addresses the research project only.
- 4. For purposes of discussions in this memo, other financial communications are communications directed to external audiences that explain and/ or analyze the external U.S. GAAP financial statements. For example, management commentary or discussion and analysis type documents would be other financial communications but internal budgetary information would not.
- 5. When this project was added to the research agenda, it seemed best to first begin with gathering further background and research on appropriate alternatives for the

Board to consider in terms of means and method(s) for improving upon other financial communications as well additional research by the staff, including outreach to key stakeholders in the sector, on what information is reported outside of the basic financial statements, and current practice for reporting that information. The staff believed and the Board agreed that educating the Board and staff on current practice may be appropriate prior to the Board committing to a standard-setting project.

#### **Outreach on Current Other Financial Communications**

- 6. In late 2011, the NFP Other Financial Communication Resource Group was formed to provide the Board and staff with a discussion forum and advice on critical issues as we study how organizations use financial communications other than financial statements to "tell their story." This Resource Group includes 21 stakeholders from the NFP sector and was designed to get coverage of a spectrum of the following attributes:
  - (a) Types of constituents (preparers, auditors/accountants, academics, other financial statement users)
  - (b) Sizes of organizations
  - (c) Industries within NFP Sector.

#### **Procedures Performed**

7. The staff performed the following procedures in order to get feedback from stakeholders in the NFP sector on current practice related to other financial communications:

- (a) Prepared and distributed via email a Request for Information (RFI) to Resource Group Members
- (b) Held conference calls with various Resource Group members to discuss their responses to the RFI
- (c) Aggregated the responses received (both received electronically and received via conference call) to develop preliminary findings on current other financial communications
- (d) Presented preliminary findings at the September NAC meeting and discussed preliminary trends noted and solicited additional input
- (e) Held a series of conference calls with the Resource Group in October to discuss preliminary findings and trends noted as well as the feedback from the NAC.

#### **Current Practice**

- 8. As it relates to current practice, the staff has aggregated the feedback received based on three broad topics related to other financial communications:
  - (a) Existence
  - (b) Availability
  - (c) Sufficiency.

#### Existence of other financial communications

9. The existence of other financial communications in the NFP sector varied. It is more prevalent in the healthcare and higher education industries as well as larger not-for-profits. Resource Group members attributed this trend to the fact that

entities in these industries are often active in the debt market, and therefore have relevant debt covenants or credit-agency reporting requirements that require them to prepare some level of other financial communication.

Availability of other financial communications

10. The availability of other financial communications in the NFP sector varies.
Similar to the trends related to the existence of other financial communications, the availability of other financial communications is more prevalent in the healthcare and higher education industries as well as larger not-for-profits.

#### Sufficiency

11. As it relates to sufficiency, current other financial communications vary greatly among NFP entities. Most respondents noted that improvements could be made in both quality and consistency of other financial communications. Sufficiency is dependent on meeting the needs of financial statement users and, therefore, there are two considerations in reviewing sufficiency: (i) relevance and (ii) adequacy in meeting the needs of the users of financial statements.

#### **Best Practices**

12. The staff asked Resource Group members to help identify examples of best practices in the NFP sector that prepare sufficient other financial communications. Some of the factors identified by resource group members as determinants of best practice include clear communication and analysis of trends noted in the financial statements and thorough discussion of relevant drivers. Generally speaking, the staff would say that best practices tend to be limited to specific areas (i.e.

significant discussions of programmatic output(s) and analysis of trends over multiple years with any variances explained).

#### Staff Analysis, Recommendations, and Questions for the Board

#### Staff Analysis

- 13. Based on the procedures performed, the staff thinks that practice varies throughout the sector as it relates to all three attributes, existence, availability, and sufficiency of other financial communications. Certain entities that are subject to debt covenants and rating agency reporting requirements tend to have greater likelihood of having some form of other financial communication, but even those organizations tend to vary in terms of quality and consistency.
- 14. The staff has identified three alternatives for the Board's consideration related to other financial communications in the NFP sector:
  - (a) Issue an Invitation to Comment (ITC) inviting all relevant stakeholders to provide feedback.
  - (b) Add a standard-setting project to the agenda to address the issue of other financial communications in the NFP sector.
  - (c) Do nothing.

#### Invitation to Comment- Alternative A

15. Alternative A would require the staff to prepare an Invitation to Comment on a potential framework for other financial communications in the NFP sector. This would require staff time to develop and draft an Invitation to Comment but would

- provide useful input and feedback from the sector as whole that would assist the Board in making a decision about whether to engage in a standard-setting project.
- 16. The staff has outlined a potential Invitation to Comment below:
  - (a) *Need for an Other Financial Communication Framework:* Is there a need for a management framework specifically for the not-for-profit sector?
    - i. Should the other financial communications framework include broad principles, detailed requirements, or a combination of both?
  - (b) *Inclusion in financial statements:* Should other financial communications be required as part of the financial statements and related notes?
    - i. What should be the degree of auditor association with other financial communications?
  - (c) Financial Reporting Requirement: Should application of the other financial communication framework be mandatory or optional? If other financial communications should be mandatory for only some entities, what are the attributes that distinguish those entities for which other financial communications should be mandatory?
  - (d) *Topics Covered:* Should the following topics be covered in the other financial statement framework:
    - i. Mission
    - ii. Programmatic outcome(s)
    - iii. Programmatic output(s)
    - iv. Results of operations
    - v. Liquidity

- vi. Financial strength/ health
- vii. Segments
- viii. Forward looking information
  - ix. Economic, industry or other risk factors
- (e) *Scalability:* Whether a framework is mandatory or optional, what could we do to help ensure that other financial communications could be produced by small and medium-sized NFPs in a cost-beneficial manner?

#### Standard-setting Project

17. Alternative B would be adding a standard-setting project to the agenda based on the feedback received from the NAC and the research prepared by the staff and outlined in this memo. This alternative is the most direct method to providing a framework for other financial communications to the NFP sector but may not adequately consider feedback from a broad cross-section of NFP stakeholders until the Board issues a proposed ASU for public comment. Additionally, the staff believes that consideration of general sector feedback through an Invitation to Comment will create a more efficient work process if the Board were to decide to add a standard-setting project to the agenda.

#### Do Nothing

18. This Alternative C is to do nothing and let practice develop. This would obviously have no impact on the other financial communications in the sector. This alternative is not responsive to the general feedback that we have received from the

sector through both the NAC and the Other Financial Communications Resource Group.

#### Staff Recommendation

19. The staff recommends Alternative A, issuing an Invitation to Comment. The staff believes that the Invitation to Comment will provide the Board the necessary feedback to evaluate the remaining alternatives. The staff also believes that issuing an Invitation to Comment will allow a broad cross-section of NFP stakeholders an opportunity to express their views on a variety of topics that will be relevant. That input would be helpful to the Board and others whether or not a standard-setting project is added to FASB's agenda. The staff notes that both members of the NAC and the Resource Group have been very involved in the project to date; however, there is additional benefit in allowing all stakeholders to provide a point of view.

#### Question

Does the Board support the staff recommendation to issue an Invitation to Comment? If not, how does the Board direct the staff to proceed?

#### Comment Period

- 20. The staff recommends a 120 day comment period, based on the following:
  - (a) Number and nature of issues to be discussed
  - (b) Consideration of the timing, given that many NFPs have a 6/30 year-end.

#### Question

Does the Board support the staff recommendation to issue an Invitation to Comment? If not, how does the Board direct the staff to proceed?