REVISED MINUTES

Financial Accounting Standards Board

To: Board Members

From: Cosper (ext. 283)

Subject: Revised Minutes of November 29, 2006 Board Meeting: Ratification of EITF Consensuses and Tentative Conclusions **Date:** December 8, 2006

cc: L. Smith, Bielstein, MacDonald, Golden, Akinlade, Paul, Sarno, Beswick, Bolash, Jacobs, Stevens, Jolla, Fanzini, Roberge, Bennett, McGrath, Rhine, Allen, Gabriele, Polley, Swift, Richter, Carney, Leisenring, 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 meeting minutes and in EITF Abstracts. *Board ratification of a tentative conclusion 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 consensuses reached on EITF Issues Nos. 06-6, 06-7, 06-8, and 06-9; Board ratification of tentative conclusions reached on EITF Issues Nos. 06-10 and 06-11.

Basis for Discussion: Board Memorandum dated November 22, 2006

Length of Discussion: 11:15 to 11:35 a.m.

Attendance:

Board members present:	Batavick, Crooch, Herz, Linsmeier, Seidman, and Trott
Board members absent:	Young
Staff in charge of topic:	Cosper
Other staff at Board table:	L. Smith and Bennett
Outside participants:	None

Summary of Decisions Reached:

The Board considered and ratified the consensuses reached at the November 16, 2006 EITF meeting in the following four Issues.

1. Issue No. 06-6, "Debtor's Accounting for a Modification (or Exchange) of Convertible Debt Instruments"

2. Issue No. 06-7, "Issuer's Accounting for a Previously Bifurcated Conversion Option in a Convertible Debt Instrument When the Conversion Option No Longer Meets the Bifurcation Criteria in FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*"

3. Issue No. 06-8, "Applicability of the Assessment of a Buyer's Continuing Investment under FASB Statement No. 66, *Accounting for Sales of Real Estate*, for Sales of Condominiums"

4. Issue No. 06-9, "Reporting a Change in (or the Elimination of) a Previously Existing Difference between the Fiscal Year-End of a Parent Company and That of a Consolidated Entity or between the Reporting Period of an Investor and That of an Equity Method Investee"

The Board also considered and ratified the tentative conclusions reached at the November 16, 2006 EITF meeting in the following two Issues:

1. Issue No. 06-10, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements"

2. Issue No. 06-11, "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards"

Additionally, the Board approved the exposure of a draft abstract for each of the Issues with tentative conclusions for a comment period that will end on January 22, 2007. The draft abstracts are expected to be posted to the FASB website after December 6, 2006.

Objectives of Meeting:

The objectives of the meeting were for the Board to (a) ratify the consensuses reached in four Issues, (b) ratify the tentative conclusions reached on two other Issues, and (c) approve the exposure of a draft abstract for each of the Issues whose tentative conclusions were ratified, for a comment period that will end on January 22, 2007. Those objectives were met.

Matters Discussed and Decisions Reached:

RATIFICATION OF CONSENSUSES

Issue 06-6

1. Ms. Cosper stated that for Issue 06-6, the Task Force affirmed as a consensus the tentative conclusion reached at the September 7, 2006 EITF meeting that the change in the fair value of an embedded conversion option resulting from an exchange of debt instruments or a modification in the terms of an existing debt instrument should not be included in the cash flow test of whether the terms of the new debt instrument are substantially different from the terms of the original debt instrument under EITF Issue No. 96-19, "Debtor's Accounting for a Modification or Exchange of Debt Instruments." However, a separate analysis must be performed if the cash flow test under Issue 96-19 does not result in a conclusion that a substantial modification or exchange has occurred. Under that separate analysis, a substantial modification or exchange has occurred and the issuer should apply extinguishment accounting if the change in the fair value of the embedded conversion option (calculated as the difference between the fair value of the embedded conversion option immediately before and after the modification or exchange) is at least 10 percent of the carrying amount of the original debt instrument immediately prior to the modification or exchange. Additionally, a modification or an exchange of debt instruments that adds a substantive conversion option or eliminates a conversion option that was substantive at the date of the modification or exchange would always be considered substantial and debt extinguishment accounting would be required in those circumstances. The Task Force decided that for purposes of evaluating whether an embedded conversion option was substantive on the date it was added to or eliminated from a debt instrument, the

factors described in paragraphs 7–9 of EITF Issue No. 05-1, "Accounting for the Conversion of an Instrument That Became Convertible upon the Issuer's Exercise of a Call Option," should be considered.

2. In addition, the Task Force also affirmed as a consensus the tentative conclusion reached at the September 7, 2006 EITF meeting that when a convertible debt instrument is modified or exchanged in a transaction that is not accounted for as an extinguishment, an increase in the fair value of the embedded conversion option (calculated as the difference between the fair value of the embedded conversion option immediately before and after the modification or exchange) should reduce the carrying amount of the debt instrument (increasing a debt discount or reducing a debt premium) with a corresponding increase in additional paid-in capital. However, a decrease in the fair value of an embedded conversion option resulting from a modification or an exchange should not be recognized. The issuer should not recognize a beneficial conversion feature or reassess an existing beneficial conversion feature upon a modification or exchange of convertible debt instruments in a transaction that is not accounted for as an extinguishment.

3. Ms. Cosper further stated that this Issue should be applied to modifications or exchanges of debt instruments occurring in interim or annual reporting periods beginning after Board ratification. Earlier application of this Issue is permitted for modifications or exchanges of debt instruments in periods for which financial statements have not yet been issued. Retrospective application to previously issued financial statements is not permitted. The Board agreed to ratify the consensuses reached in Issue 06-6 (all Board members agreed).

Issue 06-7

4. Ms. Cosper stated that for Issue 06-7, the Task Force affirmed as a consensus the tentative conclusion reached at the September 7, 2006 EITF meeting that when an embedded conversion option in a convertible debt instrument no longer meets the bifurcation criteria in Statement 133, an issuer should account for the previously bifurcated conversion option by reclassifying the carrying amount of the liability for the conversion option (that is, its fair value on the date of reclassification) to

shareholders' equity. Any debt discount recognized when the conversion option was bifurcated from the convertible debt instrument should continue to be amortized. The Task Force also reached a consensus that if a holder exercises a conversion option for which the carrying amount has previously been reclassified to shareholder's equity, the issuer should recognize any unamortized discount remaining at the date of conversion immediately as interest expense. The Task Force observed that if the instrument being converted has the characteristics of "Instrument C" in EITF Issue No. 90-19, "Convertible Bonds with Issuer Option to Settle for Cash upon Conversion," the guidance for conversions of such instruments in EITF Issue No. 03-7, "Accounting for the Settlement of the Equity-Settled Portion of a Convertible Debt Instrument That Permits or Requires the Conversion Spread to Be Settled in Stock (Instrument C of Issue No. 90-19)," should be applied, regardless of whether the embedded conversion option was previously reclassified to shareholders' equity pursuant to the guidance in this Issue. If a convertible debt instrument with a conversion option for which the carrying amount has previously been reclassified to shareholders' equity pursuant to the guidance in this Issue is extinguished for cash (or other assets) prior to its stated maturity date, a portion of the reacquisition price equal to the fair value of the conversion option at the date of the extinguishment should be allocated to equity and the remaining reacquisition price should be allocated to the extinguishment of the debt to determine the amount of gain or loss.

5. This Issue should be applied to previously bifurcated conversion options in convertible debt instruments that cease to meet the bifurcation criteria in Statement 133 in interim or annual periods beginning after December 15, 2006, regardless of whether the debt instrument was entered into prior or subsequent to the effective date of this Issue. Earlier application of this Issue is permitted in periods for which financial statements have not yet been issued. Retrospective application pursuant to FASB Statement No. 154, *Accounting Changes and Error Corrections*, to previously issued financial statements is permitted.

6. The Board agreed to ratify the consensuses reached in Issue 06-7 (all Board members agreed). Mr. Herz asked if the staff is still working on the potential simplification of EITF Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to,

and Potentially Settled in, a Company's Own Stock." Mr. Smith responded affirmatively.

Issue 06-8

7. Ms. Cosper stated that for Issue 06-8, the Task Force affirmed as a consensus the tentative conclusion reached at the September 7, 2006 EITF meeting that in assessing the collectibility of the sales price pursuant to paragraph 37(d) of Statement 66, an entity should evaluate the adequacy of the buyer's initial and continuing investment to conclude that the sales price is collectible. The buyer's initial and continuing investments should be in any of the forms specified in paragraph 9 of Statement 66 and should only consider the nonrefundable portion of such investments. The Task Force agreed that an entity can meet the continuing investment criterion in paragraph 12 of Statement 66 by requiring the buyer to either (a) make additional payments during the construction term at least equal to the level annual payments that would be required to fund principal and interest on an amortizing customary mortgage for the remaining purchase price of the property (excess of the purchase price over the initial investment by the buyer) or (b) increase the minimum initial investment by an equivalent aggregate amount. The remaining purchase price should be determined by reference to the sales price of the property. The Task Force believes that the test should be performed using a hypothetical loan between the seller and the buyer. The Task Force ultimately concluded that because paragraph 12 of Statement 66 refers to the buyer's "debt for the purchase price of the property," using remaining purchase price would be consistent with Statement 66.

8. For transactions within the scope of this Issue, if an entity is unable to meet the criteria in paragraph 37, including an assessment of collectibility using the initial and continuing investment tests described in paragraphs 8–12 of Statement 66, the entity should apply the deposit method as described in paragraphs 65–67 of Statement 66 until the criteria in paragraph 37 are met. On a reassessment date, an entity should reassess all of the criteria in paragraph 37 of Statement 66 to determine whether profit should be recognized under the percentage-of-completion method. The Task Force reached a consensus that in reassessing the collectibility of the sales price, the initial

and continuing investment tests should be applied prospectively from the reassessment date (as if the deposit was received on the reassessment date).

9. Additionally, the Task Force reached a consensus that this Issue is effective for the first annual reporting period beginning after March 15, 2007. Earlier application is permitted as of the beginning of a fiscal year provided that the entity has not yet issued financial statements for that fiscal year. Entities that have not accounted for sales of condominiums in a manner that is consistent with the consensus in this Issue should recognize the effect of the consensus as a change in accounting principle through a cumulative-effect adjustment to retained earnings or to other components of equity or net assets in the statement of financial position at the beginning of the year of adoption. The Board agreed to ratify the consensuses reached in Issue 06-8 (all Board members agreed).

Issue 06-9

10. Ms. Cosper stated that for Issue 06-9, the Task Force affirmed as a consensus the tentative conclusion reached at the September 7, 2006 EITF meeting that a parent or an investor should report a change to (or the elimination of) a previously existing difference between the parent's reporting period and the reporting period of a consolidated entity or between the reporting period of an investor and the reporting period of an equity method investee in the parent's or investor's consolidated financial statements as a change in accounting principle in accordance with the provisions of FASB Statement No. 154, *Accounting Changes and Error Corrections*. Retrospective application is not required if it is impracticable to apply the effects of the change pursuant to paragraph 11 of Statement 154.

11. This Issue is effective for changes occurring in interim or annual reporting periods beginning after Board ratification. Earlier application of this guidance is permitted in periods for which financial statements have not yet been issued. The Board agreed to ratify the consensuses reached in Issue 06-9 (all Board members agreed).

RATIFICATION OF TENTATIVE CONCLUSIONS

Issue 06-10

12. Ms. Cosper stated that for Issue 06-10, the Task Force reached a tentative conclusion that an employer should recognize a liability for the postretirement benefit related to a collateral assignment split-dollar life insurance arrangement in accordance with either FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions* (if, in substance, a postretirement benefit plan exists), or APB Opinion No. 12, *Omnibus Opinion—1967* (if the arrangement is, in substance, an individual deferred compensation contract), based on the substantive agreement with the employee. In determining whether a postretirement benefit has been settled by an insurance contract, the Task Force observed that an employer should analyze whether the employer remains subject to the risks or rewards associated with the underlying insurance contract (in the postretirement period) that collateralizes the employer's asset. The Task Force observed that if the employer’s asset is collateralized by the employee’s underlying insurance contract, then a settlement has not occurred pursuant to Statement 106.

13. The Task Force also reached a tentative conclusion that an employer should recognize and measure an asset based on the nature and substance of the collateral assignment split-dollar life insurance arrangement. The Task Force observed that in determining the nature and substance of the arrangement, the employer should assess what future cash flows the employer is entitled to, if any, as well as the employee's obligation and ability to repay the employer.

14. The Task Force reached a tentative conclusion that this Issue should be effective for fiscal years beginning after December 15, 2007, with earlier application permitted. Entities should recognize the effects of applying the tentative conclusion in this Issue through either (a) a change in accounting principle through a cumulative-effect adjustment to retained earnings or to other components of equity or net assets in the statement of financial position as of the beginning of the year of adoption, or (b) a change in accounting principle through retrospective application to all prior periods.

15. The Board agreed to ratify the tentative conclusions reached in Issue 06-10 (all Board members agreed). Mr. Trott stated that he would like the staff to consider holding a telephonic EITF meeting when the comment period ends to discuss the tentative conclusions reached in this Issue and Issue 06-11. He believes that depending on the number of comment letters received and the issues that arise due to those comment letters, the Task Force should not wait until the March EITF meeting to discuss this Issue. Mr. Trott noted that if the Task Force affirms as a consensus the tentative conclusions reached in this Issue, the entities affected by this Issue should be given adequate time to implement the Issue. He believes that discussion of this Issue at the March EITF meeting would not allow entities adequate time to consider the effects of implementing this Issue. Mr. Smith stated that he does not anticipate that the staff would receive a significant amount of comment letters on this Issue; however, if needed, the staff would consider a public telephonic EITF meeting.

Issue 06-11

16. Ms. Cosper stated that for Issue 06-11, the Task Force reached a tentative conclusion that an income tax benefit from dividends or dividend equivalents that are paid to employees for nonvested equity shares, nonvested equity share units, and outstanding equity share options should be recognized as an increase in additional paid-in capital. Amounts recognized in additional paid-in capital for the income tax benefits of dividends on those awards should be included in the pool of excess tax benefits available to absorb potential future tax deficiencies on share-based payment awards. In reaching the tentative conclusion, the Task Force considered that dividends or dividend equivalents that are paid to employees for nonvested equity shares, nonvested equity share units, and outstanding equity share options that are charged to retained earnings may result in a tax deduction prior to the actual realization of the related tax benefit because the employer, for example, has a net operating loss carryforward. Pursuant to the guidance in footnote 82 of FASB Statement No. 123 (revised 2004), *Share-Based Payment*, the income tax benefit of those dividends would not be recognized until the deduction reduces taxes payable. Unrealized income tax benefits from dividends on equity-classified employee share-based payment awards should be

excluded from the pool of excess tax benefits available to absorb tax deficiencies on share-based payment awards.

17. The Task Force reached a tentative conclusion that this Issue should be applied prospectively to the income tax benefits of dividends on equity-classified employee share-based payment awards that are declared in fiscal years beginning after September 15, 2007. Early application is permitted for the income tax benefits of dividends on equity-classified employee share-based payment awards that are declared in periods for which financial statements have not yet been issued. Retrospective application to previously issued financial statements is prohibited. The Board agreed to ratify the tentative conclusions reached in Issue 06-11 (all Board members agreed).

Follow-up Items:

18. None

General Announcements:

19. None