**MINUTES**

Financial Accounting Standards Board

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| **To:** | Board Members |
| **From:** | Financial Instruments Team (Salo, ext. 312) |
| **Subject:** | L/E Minutes of the November 5, 2003 Board Meeting |
| **Date:** | November 13, 2003 |
| **cc:** | Leisenring, Smith, Bielstein, Cassel, Derivatives Implementation Team, Financial Instruments Team, Swift, Polley, Petrone, Gabriele, Sutay, Bean, Allen, FASB Intranet (e-mail) |

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| Topic: | Liabilities and Equity: Posting of FSP FAS 150-3 and FSP FAS 150-4 |
| Basis for Discussion: | Memorandum dated November 3, 2003 |
| Length of Discussion: | 9:00 a.m. to 11:30 a.m. |

Attendance:

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| Board members present: | Herz, Batavick, Crooch, Schieneman, Schipper, Seidman, and Trott |
| Board members absent: | None |
| Staff in charge of topic: | Bullen, Richards |
| Other staff at Board table | Bielstein, Smith, Laurenzano, and Salo |
| Outside participants: | Leisenring (IASB) |

**<u>Summary for ACTION ALERT</u>:**

The Board discussed a proposed FASB Staff Position (FSP) and directed the staff to issue final FSP FAS 150-3, "Effective Date, Disclosures, and Transition for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests under FASB Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*." The Board made the following decisions with regard to that FSP:

**Certain Mandatorily Redeemable Financial Instruments of Nonpublic Entities**

The effective date of Statement 150 will be deferred for mandatorily redeemable financial instruments of nonpublic entities that are not Securities and Exchange Commission registrants, as follows:

a. For instruments that are mandatorily redeemable on fixed dates for amounts that are fixed or determined by reference to an interest rate index, currency index, or another external index, the classification, measurement, and disclosure provisions of Statement 150 will be deferred for an additional year, becoming effective for fiscal periods beginning after December 15, 2004.
b. For other instruments, the classification, measurement, and disclosure provisions of Statement 150 will be deferred indefinitely pending further Board action.

The Board noted that while the disclosure requirements of Statement 150 do not apply to those instruments while application of Statement 150 to those instruments is deferred, the requirements of FASB Statement No. 129, *Disclosure of Information about Capital Structure*, still apply.

**Certain Mandatorily Redeemable Noncontrolling Interests**

The effective date of Statement 150 will be deferred for certain mandatorily redeemable noncontrolling interests (of both public and nonpublic entities) as follows:

a. For interests that would not have to be classified as liabilities by the subsidiary, under the "only upon liquidation" exception in paragraph 9 of Statement 150, but would be classified as liabilities by the parent in consolidated financial statements, the classification and measurement provisions of Statement 150 will be deferred indefinitely pending further Board action.
b. For other mandatorily redeemable noncontrolling interests that were issued before November 5, 2003, the *measurement* provisions of Statement 150 will be deferred indefinitely, both for the parent in consolidated financial statements and for the subsidiary that issued the instruments that resulted in the mandatorily redeemable noncontrolling interest, pending further Board action. However, the *classification* provisions will not be deferred.

The Board also decided that, for mandatorily redeemable financial instruments created before the effective date designated by Statement 150 (or in FSP FAS 150-3) for those instruments and that still exist at the beginning of the period of adoption, transition will be achieved by reporting the cumulative effect of a change in an accounting principle by initially measuring the financial instruments at fair value or other measurement attribute required by Statement 150.

The Board decided that early adoption of the provisions of Statement 150 for instruments within the scope of the indefinite deferrals will be precluded during the deferral period. Entities that already have adopted Statement 150 for instruments within the scope of that indefinite deferral should reverse the effects of that adoption by recognizing the cumulative effect of the reversal or by restating financial statements for periods presented subsequent to the original adoption of Statement 150.

The Board did not object to the finalization of FSP FAS 150-3, incorporating the Board decisions as listed above, or FSP FAS 150-4, "Issuers' Accounting for Employee Stock Ownership Plans under FASB Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*." The staff announced that both FSPs will be posted to the FASB website as final on November 7, 2003.

**Matters Discussed and Decisions Reached:**

Mr. Bullen stated that the staff had incorporated ideas from constituent comment letters on an Exposure Draft into a revised version of FSP FAS 150-3. He noted that constituents raised concerns regarding not only nonpublic entities but also mandatorily redeemable noncontrolling interests. He first asked the Board to discuss whether to change the scope of the deferral for certain mandatorily redeemable noncontrolling interests that the Board had tentatively agreed to at the October 29, 2003 meeting. The staff recommended the change so that the scope of the deferral would be better suited to the implementation issues that have arisen. Mr. Trott stated that it was important that the change in scope not apply to certain newly created mandatorily redeemable noncontrolling interests, because no purchase accounting issues have arisen for those interests. The staff confirmed with the Board that freestanding physically settled forward purchase contracts on noncontrolling interests entered into by the parent are not included in the scope of the deferral.

Mr. Trott proposed that the measurement provisions, but not the classification provisions, of Statement 150 should be deferred for other mandatorily redeemable noncontrolling interests that are not equity for the subsidiary under the exception in paragraph 9. Ms. Seidman expressed concern that separating the measurement and classification provisions for deferral purposes will be complicated. She stated her preference that the Board indefinitely defer both the classification and measurement provisions of Statement 150 for all mandatorily redeemable noncontrolling interests. Mr. Schieneman supported Mr. Trott's proposal. The staff summarized Mr. Trott's proposal as follows:

> The effective date of Statement 150 is deferred for certain mandatorily redeemable noncontrolling interests of all entities as follows:
>
> a. For interests that would be classified as equity by the subsidiary, under the exception in paragraph 9 of Statement 150, but would be classified as liabilities by the parent in consolidated financial statements, the classification and measurement provisions of Statement 150 will be deferred indefinitely pending further Board action.
>
> b. For other interests that were created before either the original effective date of Statement 150 or today's date, the measurement provisions of Statement 150 will be deferred indefinitely, for the subsidiary and for its parent in consolidated financial statements, pending further Board action. However, the classification provisions will not be deferred.

Ms. Richards noted that the disclosure requirements under paragraphs 26 and 27 of Statement 150 will still be applicable for mandatorily redeemable noncontrolling interests subject to this deferral as proposed by Mr. Trott. She pointed out that those disclosure requirements will entail calculation of settlement amounts and collection of fair value information for that calculation. The Board deliberated and the majority agreed with Mr. Trott's proposal. (Four Board members agreed: EWT, GMC, RHH, GSS; three Board members disagreed: KAS, GJB, LFS). Ms. Seidman expressed concern that Mr. Trott's proposal would distract the Board from moving on to business combination and measurement issues. Mr. Batavick stated that there is a general misunderstanding surrounding this issue and, therefore, supported the staff's recommendation. The Board then voted to use November 5, 2003, as the date for determining a newly created instrument. (All Board members agreed.)

Mr. Bullen asked the Board whether to change the deferral period for nonpublic entities other than SEC registrants to match the deferral period for certain mandatorily redeemable noncontrolling interests of consolidated entities (indefinite deferral). Ms. Schipper asked whether the disclosures in Statement 150 will still be required if the Board decided upon indefinite deferral until the Board reconsiders various issues. Mr. Trott stated that disclosure requirements under Statement 150 will require nonpublic companies to quantify fair value. He suggested that only the disclosure requirements in Statement 129 should apply for nonpublic entities if the Board decides upon indefinite deferral. Mr. Trott also proposed that the Board should limit the deferral to specific types of mandatorily redeemable instruments of nonpublic entities that are not SEC registrants. He said that Statement 150 provisions for those instruments that are mandatorily redeemable on fixed dates for fixed or determinable amounts should not be deferred indefinitely because measurement issues are not relevant. Ms. Schipper requested that the Board provide a fixed date of deferral to the public for educational purposes . She also stated that she supported the staff recommendation and Mr. Trott's idea to direct preparer's attention to the disclosure requirements in Statement 129. After deliberations, the Board unanimously decided the following:

a. For instruments that are mandatorily redeemable on fixed dates for fixed or determinable amounts, the classification, measurement, and disclosure provisions of Statement 150 will be effective for fiscal periods beginning after December 15, 2004.
b. For other instruments, the classification, measurement, and disclosure provisions of Statement 150 will be deferred indefinitely until the Board takes further action to make them effective.

The Board discussed and unanimously decided that for instruments created before the effective date designated by Statement 150 for those instruments (as set forth in the Statement or in FSP FAS 150-3 that still exist at the beginning of the period of adoption, transition will be achieved by reporting the cumulative effect of a change in an accounting principle by initially measuring the financial instruments at fair value or other measurement attribute required by the Statement.

The Board also decided to preclude early adoption of the provisions of Statement 150 for instruments within the scope of the indefinite deferrals during the deferral period. Therefore, entities that already adopted Statement 150 for instruments within the scope of that indefinite deferral should reverse the effects of that adoption by recognizing the cumulative effect of the reversal or by restating financial statements for periods presented subsequent to the original adoption of Statement 150.

The Board voted not to object to the finalization of either FSP FAS 150-3, incorporating the Board decisions as listed above, or FSP FAS 150-4. (All Board members agreed.) Mr. Bullen announced that both FSPs will be posted to the FASB website as final on November 7, 2003.

**Follow-up Items:**
None

**General Announcements:**
None