

## MINUTES



## Financial Accounting Standards Board

**To:** Board Members  
**From:** Liabilities and Equity Team  
(R. Richards, Ext. 303)  
**Subject:** Minutes of the October 16, 2002 Board Meeting  
**Date:** October 23, 2002  
**Time Code** A: FI-LE  
**Cc:** Bielstein, Bullen, Cassel, Financial Instruments Team, Gabriele, Leisenring, Mahoney, Petrone, Polley, Smith, Sutay, Swift, Thompson, FASB Intranet

**Topics:** Earnings Per Share, Summary of Decisions, and International Differences

**Basis for Discussion:** Staff memorandums dated October 3 and October 8, 2002

**Length of Discussion:** Starting Time: 1:00 p.m.  
Concluding Time: 1:45 p.m.

**Attendance:**

Board members present:	Herz, Foster, Schieneman, Schipper, and Trott
Board members absent:	Crooch and Wulff
Staff in charge of topics:	B. Richards and Martin
Other staff at Board table:	Bielstein, Bullen, Nesta, and R. Richards
Outside participants:	Leisenring (IASB)

### **MATTERS DISCUSSED, DECISIONS REACHED, AND FOLLOW-UP ACTION**

The Board discussed issues related to earnings per share (EPS) and the differences between the accounting for certain financial instruments under its proposed limited-scope Statement and the proposed amendment to IAS 32, *Financial Instruments: Disclosure and Presentation*. The Board decided not to amend FASB Statement No. 128, *Earnings per Share*, and EITF Topic D-72, "Effect of Contracts That May Be Settled in Stock or Cash on the Computation of Diluted Earnings per Share," at this time. The Board also decided that entities

that enter into physically settled forward purchase contracts should not reduce the number of outstanding shares in calculating basic EPS.

## **BASES FOR BOARD DECISIONS**

### **Earnings Per Share**

The Board agreed unanimously not to amend paragraph 29 of Statement 128 and Topic D-72, which address contracts that may be settled in stock or cash based on the intent of the form of settlement. Messrs. Foster and Trott stated that they would have preferred to amend the existing guidance immediately. Some Board members expressed interest in eliminating the notion of intent but noted that the issue exists for a broader class of contracts other than those included in the scope of the proposed Statement. Additionally, Board members stated that they did not want to delay the first phase of the liabilities and equity project to address an issue that is not dependent on, or a result of, the proposed Statement. They noted that the Board could reconsider amending the guidance at a later date.

The Board also decided that including the effect of certain instruments previously classified as equity but now classified as liabilities and measured at fair value in the dilutive EPS calculation was appropriate even if those instruments are “out of the money” from the holder’s perspective. Board members observed that being “out of the money” is a calculation issue, not a flaw in the dilutive EPS model.

The Board voted unanimously that entities should not reduce the number of outstanding shares when computing basic EPS under the requirements of Statement 128 for physically settled forward purchase contracts. Messrs. Foster and Trott indicated that they would have preferred reducing the number of outstanding shares. Board members noted that even though equity would be reduced by physically settled forward purchase contracts that are measured at the present value of the contract amount, the shares would still be outstanding and should be included in the calculation of basic EPS. Additionally, the Board decided that any dilutive effects of those contracts should be included in calculating dilutive EPS pursuant to the requirements of Statement 128. Board

members noted that their decision not to reduce the number of outstanding shares and to include any dilutive effects is consistent with international guidance.

### **Summary of Decisions**

The staff summarized the Board's decisions to date. No further decisions were reached.

### **International Differences**

The Board discussed how its decisions within the scope of the proposed Statement differ in certain respects from the guidance in the proposed amendment to IAS 32. The Board confirmed its support for its decisions to date despite the differences. Board members suggested revisiting some of those differences at the planned Board meeting on October 30, 2002. The Board directed the staff to reexamine the differences in cooperation with the IASB staff and identify areas where the Board and the IASB could converge.

### **SUMMARY FOR ACTION ALERT**

Same as Matters Discussed...

### **GENERAL ANNOUNCEMENTS**

None.