

MINUTES



To: Board Members
From: Bennett (ext. 229)
Subject: Minutes of June 28, 2006 Board Meeting: Ratification of EITF Consensuses and Tentative Conclusions **Date:** July 5, 2006
cc: Bielstein, Smith, MacDonald, Golden, Geary, Cosper, Moss, Sarno, Beswick, Jacobs, Stevens, Jolla, Fanzini, Allen, Gabriele, Polley, Swift, Bennett, 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. 05-1 (including related modifications to EITF Issue No. 03-7), 06-2, and 06-3; Board ratification of tentative conclusions reached on EITF Issues Nos. 06-1, 06-4, and 06-5.

Basis for Discussion: Board Memorandum dated June 21, 2006

Length of Discussion: 10:30 a.m. to 10:50 a.m.

Attendance:

Board members present: FASB: Batavick, Crooch, Herz, Schipper, Seidman, Trott, and Young
IASB: Leisenring

Board members absent: None

Staff in charge of topic: Geary

Other staff at Board table: L. Smith, Golden, Cosper, and Bennett

Outside participants: None

Summary of Decisions Reached:

The Board considered and ratified the consensuses reached at the June 15, 2006 EITF meeting on the following three Issues.

1. Issue No. 05-1, "Accounting for the Conversion of an Instrument That Became Convertible upon the Issuer's Exercise of a Call Option," and its related amendment to 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 EITF Issue No. 90-19)"
2. Issue No. 06-2, "Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43"
3. Issue No. 06-3, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)."

The Board also considered and ratified the tentative conclusions reached at the June 15, 2006 EITF meeting on the following three Issues. The Board also approved the exposure of a draft abstract for each of the issues for a 30-day public comment period. The draft abstracts are expected to be posted to the FASB website after July 6, 2006.

1. Issue No. 06-1, "Accounting for Consideration Given by a Service Provider to Manufacturers or Resellers of Equipment Necessary for an End-Customer to Receive Service from the Service Provider"
2. Issue No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements"
3. Issue No. 06-5, "Accounting for Purchases of Life Insurance—Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4."

Objective of Meeting:

The objectives of the meeting were for the Board to (a) ratify the consensuses reached on three Issues, (b) ratify the tentative conclusions reached on three other Issues, and (c) approve the exposure of a draft abstract for each of the Issues whose tentative conclusions were ratified, for a 30-day public comment period . These objectives were met.

Matters Discussed and Decisions Reached:

Ratification of Consensuses

1. Mr. Geary stated that for Issue 05-1, the Task Force affirmed the tentative conclusion reached at the March 16, 2006 EITF meeting as a consensus that the issuance of equity securities to settle a debt instrument that became convertible upon the issuer's exercise of a call option should be accounted for as a conversion if the debt instrument contained a substantive conversion feature as of its issuance date. The issuance of equity securities to settle an instrument that became convertible upon the issuer's exercise of a call option should be accounted for as a debt extinguishment if the debt instrument did not contain a substantive conversion feature as of its issuance date. This Issue should be applied to all conversions within the scope of this Issue that result from the exercise of call options that occur in interim or annual reporting periods beginning after the date the Board ratifies the consensus, irrespective of whether the instrument was entered into prior or subsequent to the ratification of this Issue. For instruments issued prior to the effective date of this consensus, the assessment as to whether a substantive conversion feature exists at issuance should be based only on assumptions, considerations, and/or marketplace information available as of the issuance date.
2. Mr. Geary further stated that to conform with the consensus reached on Issue 05-1, the Task Force affirmed as a consensus the tentative conclusion reached at the March 16, 2006 EITF meeting that 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 EITF Issue No. 90-19)," should be amended to clarify that Issue 03-7 does not apply to settlements within the scope of Issue 05-1.
3. The Board agreed to ratify the consensuses reached in Issue 05-1 and its related amendment to Issue 03-7 (all Board members agreed).
4. Mr. Geary stated that for Issue 06-2, the Task force affirmed as a consensus the tentative conclusion reached at the March 16, 2006 EITF meeting that an employee's right to a compensated absence under a sabbatical or other similar benefit arrangement

that requires a service period and does not increase the benefit with additional years of service does accumulate pursuant to paragraph 6(b) of FASB Statement No. 43, *Accounting for Compensated Absences*, for arrangements in which the individual continues to be a compensated employee and is not required to perform any duties for the entity during the absence. Therefore, assuming all of the other conditions of paragraph 6 of Statement 43 are met, compensation associated with a sabbatical or other similar benefit arrangement should be accrued over the requisite service period. Entities should apply this Issue to fiscal years beginning after December 15, 2006, as either (a) a change in accounting principle through a cumulative-effect adjustment to retained earnings or (b) a change in accounting principle through retrospective application to all prior periods. The Board agreed to ratify the consensuses reached in Issue 06-2 (all Board members agreed).

5. Mr. Geary stated that for Issue 06-3, the Task Force affirmed as a consensus the tentative conclusion reached at the March 16, 2006 EITF meeting that the scope of this Issue includes any tax assessed by a governmental authority that is both imposed on and concurrent with a specific revenue-producing transaction between a seller and a customer, and may include, but is not limited to, sales, use, value added, and certain excise taxes. The scope of this Issue excludes tax schemes that are based on gross receipts or total revenue and that are imposed during the inventory procurement process. The Task Force also affirmed as a consensus that the presentation of taxes on either a gross basis or a net basis within the scope of this Issue is an accounting policy decision that should be disclosed pursuant to APB Opinion No. 22, *Disclosure of Accounting Policies*. In addition, for any such taxes that are reported on a gross basis, the company should disclose the amount of those taxes in its interim and annual financial statements for each period that an income statement is presented. The disclosures required by this consensus should be applied retrospectively to interim and annual reporting periods beginning after December 15, 2006. The Board agreed to ratify the consensuses reached in Issue 06-3 (all Board members agreed).

Ratification of Tentative Conclusions

6. Mr. Geary stated that for Issue 06-1, the Task Force reached a tentative conclusion that if the consideration given by a service provider to a manufacturer or reseller (that is not a customer of the service provider) can be linked contractually to the benefit received by the service provider's customer, a service provider should account for the consideration in accordance with EITF Issue No. 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)." The service provider should characterize the consideration given to a third-party manufacturer or reseller based on the form of the consideration directed to be provided to the service provider's customer. If the form of the consideration is stipulated to be anything other than "cash consideration," then the form of the consideration should be characterized as "other than cash" consideration for purposes of applying Issue 01-9. If the service provider does not ultimately control the form of the consideration provided to the service provider's customers, the consideration should be characterized as "other than cash" consideration for purposes of applying Issue 01-9. In addition, the Task Force reached a tentative conclusion that this Issue should be applied to the first annual reporting period beginning after June 15, 2007. Entities should recognize the effects of applying this Issue as a change in accounting principle through retrospective application to all prior periods unless it is impracticable to do so.

7. The Board agreed to ratify the tentative conclusions reached in Issue 06-1 (six Board members agreed; one abstained (DMY)). Mr. Young stated that he did not believe that Issue 01-9 was designed to account for the types of situations presented in this Issue. Ms. Schipper stated that the highly form driven arrangement in Issue 01-9 was discussed at length at the EITF meeting, and constituents have been made aware of this Issue. She stated that comment letters received on this Issue might determine if the tentative conclusions reached would provide decision useful information for those affected by this Issue. Mr. Smith stated that this Issue would resolve current diversity in practice and if the Board would like to reconsider the revenue recognition model in Issue 01-9, he believes that the reconsideration should be done in conjunction with the Revenue Recognition project and not as an EITF Issue. Some Board members

requested that the staff discuss this Issue with certain analysts in the industry, including buy-side investors.

8. Mr. Geary stated that for Issue 06-4, the Task Force reached a tentative conclusion that for a split-dollar life insurance arrangement that is in substance an endorsement type of policy, an employer should recognize a liability for future benefits in accordance with FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, or APB Opinion No. 12, *Omnibus Opinion—1967*, based on the substantive agreement with the employee. The Task Force agreed that the liability under Statement 106 or Opinion 12 has not been settled through the purchase of an endorsement type policy. Additionally, the Task Force reached a tentative conclusion that this Issue should be applied to fiscal years beginning after December 15, 2006. Entities should recognize the effects of applying this Issue as either (a) a change in accounting principle through a cumulative-effect adjustment to retained earnings or (b) a change in accounting principle through retrospective application to all prior periods. The Board agreed to ratify the tentative conclusions reached in Issue 06-4 (all Board members agreed).
9. Mr. Geary stated that for Issue 06-5, the Task Force reached a tentative conclusion that a policyholder should consider any additional amounts included in the contractual terms of the policy in determining the "amount that could be realized under the insurance contract." Contractual limitations should be considered when determining the realizable amounts and those amounts that are recoverable by the policyholder at the discretion of the insurance company should be excluded from the amount that could be realized. The Task Force also reached a tentative conclusion that a policyholder should determine the "amount that could be realized under the life insurance contract" assuming the surrender of an individual-life policy (or a certificate in a group policy). Additionally, the Task Force also reached a tentative conclusion that this Issue should apply to fiscal years beginning after December 15, 2006, and that this Issue should be applied as either (a) a change in accounting principle through a cumulative effect adjustment to retained earnings or (b) a change in accounting principle through retrospective application to all prior periods.

10. The Board agreed to ratify the tentative conclusions reached in Issue 06-5 (six Board members agreed; one did not (GMC)).

Follow-up Items:

11. None

General Announcements:

12. None