

MINUTES



To: Board Members

From: M. Bellantoni (ext. 445)

Subject: Minutes of June 29, 2005 Board Meeting: Ratification of EITF Consensuses and Finalization of proposed FSP SOP 78-9-a

Date: July 6, 2005

cc: Bielstein, Smith, Petrone, Golden, Westerlund, Laurenzano, Moss, Geary, Oakley, Belcher, Sogoloff, Thuener, Mahoney, Gabriele, Polley, Swift, Richter, Attmore, Bean, Leisenring, FASB Intranet (e-mail),

The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue a final Statement or Interpretation.

Topic: Board ratification of consensuses reached on EITF Issues Nos. 04-5, 05-2, 05-5, and 05-6; Board ratification of modifications to existing consensuses in EITF Issues Nos. 96-16, 01-9, 04-6, and 04-10; Finalization of proposed FSP SOP 78-9-a

Basis for Discussion: Board Memorandums both dated June 23, 2005

Length of Discussion: 2:15 to 2:45

Attendance:

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

Board members absent: None

Staff in charge of topic: Westerlund

Other staff at Board table: Bellantoni, Geary, Golden, Larson, Murphy, and L. Smith

Outside participants: None

Summary of Decisions Reached:

The Board considered and ratified the consensuses on the following four Issues reached at the June 15–16, 2005 EITF meeting:

1. Issue No. 04-5, "Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights"
2. Issue No. 05-2, "The Meaning of 'Conventional Convertible Debt Instrument' in EITF Issue No. 00-19, 'Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock'"
3. Issue No. 05-5, "Accounting for Early Retirement or Postemployment Programs with Specific Features (Such As Terms Specified in Altersteilzeit Early Retirement Arrangements)"
4. Issue No. 05-6, "Determining the Amortization Period for Leasehold Improvements Purchased after Lease Inception or Acquired in a Business Combination."

The Board also considered and ratified the modifications to the existing consensuses in the following four Issues:

1. Issue No. 96-16, "Investor's Accounting for an Investee When the Investor Has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights"
2. Issue No. 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)"
3. Issue No. 04-6, "Accounting for Stripping Costs Incurred during Production in the Mining Industry"
4. Issue No. 04-10, "Determining Whether to Aggregate Operating Segments That Do Not Meet the Quantitative Thresholds."

Additionally, the Board agreed to finalize proposed FSP SOP 78-9-a, "Interaction of AICPA Statement of Position 78-9 and EITF Issue No. 04-5," and directed the staff to proceed to a draft for vote by written ballot. That FSP will amend the guidance in SOP 78-9, *Accounting for Investments in Real Estate Ventures*, to conform that guidance to the consensus in Issue 04-5.

Objective of Meeting:

The objective of the meeting was for the Board to (a) ratify the consensuses reached on four Issues, (b) ratify modifications to existing consensuses on four other Issues, and (c) finalize proposed FSP SOP 78-9-a.

Matters Discussed and Decisions Reached:

Ratification of Consensuses Reached

1. Mr. Westerlund said that the Task Force reached a consensus in Issue 05-2. That consensus included (a) the exception to the requirements of paragraphs 12–32 of Issue 00-19 for "conventional convertible debt instruments" should be retained, (b) instruments providing the holder an option to convert into a fixed number of shares (or equivalent amount of cash at the discretion of the issuer) for which the ability to exercise the option is based on the passage of time or a contingent event should be considered "conventional" for purposes of applying Issue 00-19, and (c) convertible preferred stock with a mandatory redemption date may qualify for the exception included in paragraph 4 of Issue 00-19 if the economic characteristics indicate that the instrument is more akin to debt than equity.
2. All Board members agreed to ratify the consensus in Issue 05-2.
3. Mr. Westerlund said that the Task Force reached a consensus in Issue 05-5. The first part of that consensus requires the employer to account for the bonus feature and the additional contributions to the German government pension scheme (collectively, the additional compensation), under a Type II ATZ arrangement, as a postemployment benefit under FASB Statement No. 112, *Employers' Accounting for Postemployment Benefits*. An entity should recognize the additional compensation over the period beginning when the employee signs the ATZ contract to the end of the active service period. The second part of the consensus requires the employer to recognize the government subsidy when it meets the necessary criteria and is entitled to the subsidy.

4. Ms. Seidman asked what the transition requirements were for the consensus. Mr. Westerlund replied that the Task Force decided that the consensus should be applied as a change in accounting estimate.
5. Mr. Trott said that the Board had received a letter from a constituent that raised a concern that the consensus diverges from International Accounting Standards (IAS). Mr. Trott noted that the IASB does not have a statement that is equivalent to Statement 112. He asked Mr. Geary to address the concerns raised in the letter.
6. Mr. Geary replied that the FASB staff, as a consequence of its preparation of the Issue Summary for Issue 05-5, was aware of the difference between U.S. GAAP and the guidance previously reached by the Institute of German Certified Public Accountants, as well as the difference between U.S. GAAP and the proposed amendment to IAS 19, *Employee Benefits*.
7. Mr. Geary stated that in the proposed amendment to IAS 19, the IASB will incorporate similar language to that found in FASB Statement No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, which relates to termination benefits that are offered for only a short period of time. He noted that based on discussions with an IASB staff member, the proposed change to IAS 19 would provide guidance that will differ from the guidance previously reached by the German IDW. In that Statement, the additional compensation is recognized at a single point in time (when the employer is demonstrably committed) and does not contemplate whether the termination benefits are provided to employees longer than for a short period of time.
8. Mr. Geary also pointed out that although the guidance provided in the German IDW Statement provides an answer that is similar to the Statement 88 answer (accounting for the additional compensation in a single point in time), the model to get to that answer is different. And, Statement 88 only applies to certain types of special termination benefits (for example, only offered for a

short period of time) whereas IAS 19 applies much more broadly to termination benefits (prior to the proposed amendment by the IASB).

9. Ms. Seidman questioned whether companies subject to the consensus in Issue 05-5 would have to make an additional change due to international standards if the proposed IAS amendment was finalized.
10. Mr. Geary said that there are numerous reconciling items between U.S. GAAP and IAS 19 due to the different models employed in the respective standards. Mr. Golden noted that one of the reasons divergence occurs is because IASB does not have a statement that is the equivalent of Statement 112, and as long as the IASB remains without an equivalent statement, reconciling items will always be necessary.
11. Ms. Schipper said that she had determined that at least one entity in the U.S., a large not-for-profit organization, has a program similar to an ATZ arrangement in which a person can work for two years and get paid incrementally over four years. She also has reason to believe that this program might exist elsewhere.
12. Mr. Smith said that he believed the agenda committee did not intend for the Task Force to address this Issue only in the context of ATZ arrangements. However, the FASB staff decided to limit the Issue to ATZ arrangements due to the unique circumstances in those arrangements. He said that, from a practical standpoint, most practitioners will probably analogize to this guidance when they are dealing with a similar fact pattern, regardless of the specific scope of the consensus. He then raised the question of whether the name of the Issue should be changed in order to assist constituents in finding the guidance.
13. Ms. Schipper said that this question should be answered in the context of U.S. GAAP. Then, if the Board wishes, it can consider the international convergence ramifications of this guidance. She also agreed that it would be a

good idea to modify the title of the Issue. Mr. Batavick and Mr. Crooch agreed that the title should be modified.

14. Mr. Herz asked if any Board members objected to ratifying the consensus in Issue 05-5. No Board members objected. Additionally, Board members agreed that the title should be modified.¹

15. Mr. Westerlund said that the Task Force reached a consensus in Issue 05-6. The consensus states that leasehold improvements acquired in a business combination and those acquired after the inception of a lease should be amortized over the shorter of the useful life of the assets or a term that includes renewals that are reasonably assured at the date of acquisition of the leasehold improvements. The Board ratified that consensus.

Ratification of Consensus Modifications

16. Mr. Westerlund asked the Board to consider ratification of the following changes to existing consensus:

- a. In Issue 01-9, the Task Force agreed to change the decision tree in Exhibit 01-9F to clarify that if a vendor pays cash to a customer as a result of a single exchange transaction, then Issue 01-9 applies, regardless of when the customer receives the cash. Additionally, the Task Force agreed to add a footnote to Issue 4 to clarify the interaction between that aspect of the consensus and the scope of Issue 01-9.
- b. In Issue 04-6, the Task Force agreed to change the transition provisions to require entities that adopt the consensus in periods beginning after Board ratification to recognize any cumulative effect adjustment in retained earnings. The Task Force also agreed to clarify that "inventory produced" means "inventory extracted" in the consensus for this Issue.
- c. In Issue 04-10, the Task Force agreed that the consensus should be applied for fiscal years ending after September 15, 2005, and that the

¹ The title of this Issue was changed from "Accounting for the Altersteilzeit Early Retirement Programs."

corresponding information for earlier periods, including interim periods, should be restated unless it is impractical to do so.

17. The Board unanimously ratified the consensus modifications in those Issues.

Ratification of Issue 04-5 Consensus, Ratification of Issue 96-16 Consensus Modification, and Finalization of Proposed FSP SOP 78-9-a

18. Mr. Larson asked the Board to consider ratifying the consensus reached by the Task Force in Issue 04-5. That consensus provides a framework for evaluating whether the general partners in a limited partnership are deemed to control that limited partnership. Additionally, he asked the Board to consider ratifying a modification to the consensus in Issue 96-16 in order to make it consistent with the consensus reached in Issue 04-5. All Board members agreed to ratify both the consensus reached in Issue 04-5 and the modification to the consensus in Issue 96-16.

19. Mr. Larson said that the Task Force, in deliberating Issue 04-5, acknowledged that the assessment of control of a limited partnership by the general partners should be consistent with the guidance included in SOP 78-9. Accordingly, in November 2004 the Board approved the posting of a proposed FSP to amend the guidance in SOP 78-9 to achieve that consistency. He noted that 10 comment letters were received on the proposed FSP, many of which commented on the tentative conclusions reached in Issue 04-5. Mr. Larson said that the staff revised the proposed FSP to be consistent with the final consensus on Issue 04-5; subject to those revisions, the staff recommended that the Board approve finalization of proposed FSP SOP 78-9-a. All Board members agreed to finalize proposed FSP SOP 78-9-a.

Other Developments

20. Finally, Mr. Westerlund informed the Board that the Task Force reached a tentative conclusion on Issue No. 04-13, "Accounting for Purchases and Sales of Inventory with the Same Counterparty." He said that a draft abstract

reflecting that tentative conclusion will be posted to the FASB website for public comment by July 7, 2005.

Follow-up Items:

21. None

General Announcements:

22. None