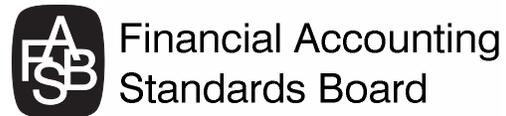


MINUTES



To: Board Members

From: Minimum Revenue Guarantees Team
(Mike Kramer, ext. 273)

Subject: Minutes of the May 18, 2005 Board Meeting: Proposed FSP on Minimum Revenue Guarantees **Date:** May 26, 2005

cc: Bielstein, L. Smith, Golden, Petrone, Leisenring, Project Team, E. Smith, Belcher, Thompson, Gabriele, Sutay, Getz, Polley, FASB Intranet

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.

Topics: Guarantees: Proposed FSP on Minimum Revenue Guarantees

Basis for Discussion: Board memorandum dated April 21, 2005.

Length of Discussion: 9:45 a.m. to 10:15 a.m.

Attendance:

Board members present: Herz, Batavick, Crooch, Schipper, Seidman, Trott, and Young (by phone)

IASB Board/Staff present: None

Board members absent: None

Staff in charge of topics: Wilkins

Other Staff at Board table: L. Smith, Golden, and Kramer

Outside Participants: None

Summary of Decisions Reached:

In adding a project to its agenda, the Board supported issuing a proposed FASB Staff Position (FSP) to affirm that the recognition, measurement, and disclosure provisions of FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, apply to a guarantor's accounting for a minimum revenue guarantee granted to a business or its owners.

The Board agreed that the recognition and measurement provisions in the proposed FSP will be effective for new transactions and arrangements entered into on or after the beginning of the first fiscal quarter following the date that the final FSP is posted to the FASB website. Earlier application of the provisions of that FSP will be permitted. For any minimum revenue guarantees issued prior to the initial application of the proposed FSP and not accounted for under Interpretation 45, the retroactive application of the initial recognition and initial measurement provisions of Interpretation 45 will not be permitted. The proposed FSP's transition provisions for disclosures will parallel the transition provisions of Interpretation 45. The proposed FSP will indicate that the disclosure requirements in paragraphs 13–16 of Interpretation 45 should be applied to all minimum revenue guarantees in financial statements of interim or annual periods ending after the beginning of the first fiscal quarter following the date that the final FSP is posted to the FASB website. Thus, the disclosure requirements in paragraphs 13–16 would be applied to any minimum revenue guarantees issued prior to the initial application of the proposed FSP, regardless of whether those guarantees were recognized and measured under Interpretation 45.

The Board approved the release of the staff's proposed FSP for public comment for a 60-day comment period.

Objective of the Meeting:

The objectives of the meeting were to discuss whether to add a project to the Board's agenda that would provide guidance regarding whether the recognition, measurement, and disclosure provisions of Interpretation 45 apply to a guarantor's accounting for a minimum revenue guarantee granted to a business or its owners, and to discuss the details of such a project. The objectives of the meeting were met.

Matters Discussed and Decisions Reached:

1. Mr. Wilkins opened the meeting by introducing the proposed project. The staff is proposing that the Board add a project to its agenda to provide guidance in a proposed FSP regarding whether the recognition, measurement, and disclosure provisions of Interpretation 45 apply to a guarantor's accounting for a minimum revenue guarantee granted to a business or its owners. The staff's proposed FSP indicates that a minimum revenue guarantee granted to a business or its owners meets the characteristics in paragraph 3(a) of Interpretation 45. The underlying for a minimum revenue guarantee is the business's gross revenues, which are "...related to an asset, a liability, or an equity security of the guaranteed party." Revenues are the changes in a business's net assets because of transactions with customers. If the guaranteed party is the business itself, then its' gross revenues are naturally related to an asset of the business. If the guaranteed party is an owner of the business, then the business's gross revenues are related to the owner's investment in the business. The issuance of a minimum revenue guarantee obligates the guarantor (the issuer) in two respects: (a) the guarantor undertakes an obligation to stand ready to perform over the term of the guarantee in the event that the specified triggering events or conditions occur (the noncontingent aspect) and (b) the

guarantor undertakes a contingent obligation to make future payments if those triggering events or conditions occur (the contingent aspect).

2. Mr. Trott noted that in an earlier constituent view, these guarantees would be covered by FASB Statement No. 5, *Accounting for Contingencies*, and not by Interpretation 45. Under that view, there would be no recognition of stand-ready obligations at the time of issuance. He is concerned that there would be no recognition of the obligations under the guarantee until they are considered probable. Mr. Trott agrees with the staff recommendation that the Board should provide guidance that minimum revenue guarantees are included in the scope of Interpretation 45. He is concerned that if the Board does not do so, entities will continue to ignore certain non-contingent obligations to stand ready.
3. Ms. Seidman agrees that the terms and the substance of these agreements are guarantees. However, she is uncertain if the arrangements fall under the scope of Interpretation 45 as it is currently written. She does not feel that revenue can be considered an asset or by itself constitute a business, or that a physician (or similar entity) fully constitutes a business. Without making these assumptions, she feels that minimum revenue guarantees are not currently in the scope of Interpretation 45. Ms. Seidman believes that the scope of Interpretation 45 would need to be amended to explicitly include minimum revenue guarantees; however, she believes more analysis of the current scope exceptions to Interpretation 45 would be needed before being able to decide whether such an amendment is warranted.
4. Mr. Crooch supports the staff recommendation and agrees with the staff's reasoning that minimum revenue guarantees are within the scope of Interpretation 45.
5. Mr. Batavick agrees with Ms. Seidman in that it may not be explicitly clear that minimum revenue guarantees are within the written scope of Interpretation

45, but he also believes those guarantees were intended to be (and are) within the spirit of the Interpretation. He supports the staff recommendation.

6. Ms. Schipper agrees with the staff recommendation. Paragraph 3(a) of Interpretation 45 was written in terms of the balance sheet in order to be comprehensive because it is more appropriate to consider these guarantees in terms of “stocks” rather than “flows.” She indicated that the proposed guidance is a clarification of what was originally intended in Interpretation 45.
7. Mr. Herz agrees with Ms. Seidman in that Interpretation 45 does not directly include minimum revenue guarantees. He does not like the idea of having these guarantees default into Statement 5, but would like to consider the effects of parsing out flow changes, not just balance sheet changes. Mr. Herz also would prefer expected value measurement rather than fair value measurement
8. The Board agreed with the staff recommendation to release a proposed FSP that states that minimum revenue guarantees are directly within the scope of Interpretation 45. There were two objections (RHH, LFS), however, an alternative view was not proposed. Those objections were related to technicalities (issuing an interpretation rather than an amendment) more than the substance of the issue.
9. The Board agreed, without objection, to all other staff recommendations. The proposed FSP will be effective for new transactions or arrangements entered into on or after the beginning of the first fiscal quarter following the date that the final FSP is posted to the FASB website. Earlier application of the provisions of that FSP is permitted. For any minimum revenue guarantees issued prior to the initial application of the FSP and not accounted for under Interpretation 45, the retroactive application of the initial recognition and initial measurement provisions of Interpretation 45 would not be permitted. The proposed FSP will indicate that the disclosure requirements in paragraphs 13–16 of Interpretation 45 should be applied to all minimum revenue

guarantees in financial statements of interim or annual periods ending after the beginning of the first fiscal quarter following the date that the final FSP is posted to the FASB website. The proposed FSP will be posted to the FASB website for a 60-day comment period.

Follow-Up Items:

None.

General Announcements:

None.