

MINUTES



**To:** Board Members  
**From:** Bennett (ext. 229)  
**Subject:** Minutes of March 28, 2006 Board Meeting: Ratification of EITF Consensuses and Tentative Conclusions **Date:** April 6, 2006  
**cc:** Bielstein, Smith, MacDonald, Golden, Geary, Moss, Oakley, Sarno, Beswick, Cosper, Belcher, Jacobs, Thuener, Jolla, Mahoney, Gabriele, Polley, Swift, Bennett, Bellantoni, 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 tentative conclusions reached on EITF Issues Nos. 05-1 (including related modifications to EITF Issue No. 03-1), 06-2, and 06-3; Board ratification of a modification to the existing consensus in EITF Issue No. 05-7.

**Basis for Discussion:** Board Memorandum dated March 23, 2006

**Length of Discussion:** 10:20 a.m. to 10:30 a.m.

**Attendance:**

Board members present:	Batavick, Crooch, Herz, Schipper, Seidman, Trott, and Young
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 tentative conclusions reached at the March 16, 2006 EITF meeting on the following four 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 April 4, 2006.

1. Issue No. 05-1, "Accounting for the Conversion of an Instrument That Became Convertible upon the Issuer's Exercise of a Call Option"
2. 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)"
3. Issue No. 06-2, "Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43"
4. 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 a modification to the existing consensus in Issue No. 05-7, "Accounting for Modifications to Conversion Options Embedded in Debt Instruments and Related Issues." The modification is effective with Board ratification.

**Objective of Meeting:**

The objectives of the meeting were for the Board to (a) ratify the tentative conclusions reached on four Issues, (b) approve the exposure of a draft abstract on the related issues for a 30-day public comment period, and (c) ratify the modification to an existing consensus on one Issue. These objectives were met.

**Matters Discussed and Decisions Reached:**

***Ratification of Tentative Conclusions***

1. Mr. Geary stated that for Issue 05-1, the Task Force reached a tentative conclusion that the issuance of equity securities to settle a debt instrument that, as of its issuance date, contains a substantive conversion feature should be accounted for as a conversion; and the issuance of equity securities to settle an instrument that, as of its issuance date does not contain a substantive conversion feature should be accounted for as a debt

extinguishment. The Task Force agreed that, for purposes of applying its tentative conclusion:

- a. A substantive conversion feature is a conversion feature that is at least reasonably possible of becoming exercisable absent the issuer's exercise of its call option
- b. The issuance date of an instrument is the instrument's commitment date, as defined in Issue 4 of EITF Issue No. 00-27, "Application of Issue No. 98-5 to Certain Convertible Instruments"
- c. The assessment of whether the conversion feature is substantive may be performed after the issuance date, but should be based only on assumptions, considerations, and/or marketplace information as of the issuance date.

In addition, the Task Force reached a tentative conclusion that this Issue should apply 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 ratification of this Issue. Early application of this Issue would be permitted in periods for which financial statements have not yet been issued. Retrospective application of previously issued financial statements would not be permitted.

2. Ms. Seidman stated that although she does not object to ratifying the tentative conclusions in this Issue, she believes that the notion of allowing the assessment of whether the conversion feature is substantive to be performed after the issuance date is inconsistent with the principles in FASB Statement No. 154, *Accounting Changes and Error Corrections*.
3. Mr. Crooch stated that he does not object to ratifying the tentative conclusions in this Issue, but he disagrees with the use of "reasonably possible" as a criteria.
4. Mr. Herz stated that he objects to permitting the use of conversion accounting because he believes that the issuance of equity securities to settle a debt instrument should be accounted for as a debt extinguishment, regardless of whether the instrument does or does not contain a substantive conversion feature. By a vote of six to one (RHH), the Board agreed to ratify the tentative conclusions in Issue 05-1.

5. Mr. Geary stated that as a result of the tentative conclusions reached on Issue 05-1, the Task Force reached a tentative conclusion that Issue 03-7 should be amended to clarify that Issue 03-7 does not apply to settlements within the scope of Issue 05-1. All Board members agreed to ratify the tentative conclusion in Issue 03-7.
6. Mr. Geary stated that for Issue 06-2, the Task force reached a tentative conclusion that an employee's right to a compensated absence under a sabbatical leave or other similar benefit arrangement that requires a service period and the benefit does not increase 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 leave or other similar benefit arrangement should be accrued over the requisite service period. In addition, the Task Force reached a tentative conclusion that this Issue should be applied to the first annual reporting period beginning after the date the consensus is ratified. Entities should recognize the consensus on this Issue as a change in accounting principle through retrospective application to all prior periods. All Board members agreed to ratify the tentative conclusions in Issue 06-2.
7. Mr. Geary stated that for Issue 06-3, the Task Force reached a tentative conclusion that the scope of this Issue includes any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer. The Task Force also reached a tentative conclusion that the presentation of taxes on either a gross 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*. A company should disclose the amount of those taxes that are recognized on a gross basis in interim and annual financial statements. In addition, the Task Force reached a tentative conclusion that this Issue should be applied to reporting periods beginning after December 15, 2006, with early application permitted. All of the Board members agreed to ratify the tentative conclusions reached in Issue 06-3.

***Ratification of Consensus Modification***

8. Mr. Geary stated that at the March 16, 2006 EITF meeting, the Task Force agreed to modify the consensus in Issue 05-7 by including the following paragraph in the abstract:

At the March 16, 2006 EITF meeting, the Task Force agreed to clarify that the consensus in Issue 05-7 also applies to a modification of a debt instrument that either adds or eliminates an embedded conversion option that is not bifurcated from its host contract pursuant to Statement 133. The Task Force also agreed that the scope of Issue 05-7 does not include the modification of debt instruments that either adds or eliminates an embedded conversion option that is required to be bifurcated by the issuer from the host contract pursuant to Statement 133 because the Task Force did not discuss those circumstances in its deliberations on Issue 05-7.

Mr. Geary further stated that the consensus modification will not be exposed for public comment and would be effective immediately following Board ratification and accounted for prospectively.

9. Ms. Seidman stated that she objects to the ratification of this consensus modification because she believes that although EITF Issue No. 96-19, "Debtor's Accounting for a Substantive Modification or Exchange of Debt Instruments," does not contain qualitative characteristics, adding an embedded conversion option, in Ms. Seidman's opinion, is a substantive modification that should result in treating the debt instrument as a new instrument and, therefore, modification accounting should not be applicable. By a vote of six to one (LFS), the Board agreed to ratify the consensus modification for Issue 05-7.

**Follow-up Items:**

10. None

**General Announcements:**

11. None