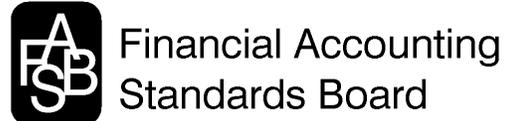


MINUTES



To: Board Members

From: Ham (ext. 443)

Subject: Minutes of the February 6, 2008 Board Meeting: Comment Letter Analysis of Proposed FSP SOP 07-1-a **Date:** February 19, 2008

cc: Leisenring, Bielstein, Golden, MacDonald, Barker, Cosper, Lott, Roberge, J. Johnson, Posta, Gabriele, Chookaszian, Klimek, Richter, Allen, Sutay, 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, Interpretation, or FASB Staff Position.

Topics: Proposed FSP SOP 07-1-a Comment Letter Analysis

Basis for Discussion: Board Memorandum 2

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

Attendance:

Board members present: FASB: Herz, Batavick, Crooch, Linsmeier, Seidman, Smith, and Young

IASB: Leisenring

Board members absent: None

Staff in charge of topic: Barker

Other staff at Board table: Cosper and Ham

Summary of Decisions Reached:

The Board decided to issue a FASB Staff Position (FSP) that indefinitely defers the effective date of AICPA Statement of Position 07-1, *Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies*. An entity that early adopted the provisions of SOP 07-1 may elect to continue applying the SOP or rescind its adoption. No other entity is permitted to adopt the SOP, with the following exception. If a parent entity that early adopted the SOP chooses not to rescind its early adoption, an entity consolidated by that parent entity that is formed or acquired after that parent entity's adoption of the SOP must apply the provisions of the SOP in its standalone financial statements.

The Board instructed the staff to modify the FSP's effective date in a manner consistent with its intent, which was not to require entities to adopt the SOP at its original effective date and subsequently rescind its adoption upon issuance of the FSP. Finally, the Board directed the staff to prepare a draft of the final FSP for vote by written ballot.

Objective of Meeting:

The objective of the meeting was for the Board to discuss the comment letters received on proposed FSP SOP 07-1-a and decide whether to issue a final FSP. The objective was met.

Matters Discussed and Decisions Reached:

Issue 1: Whether early adoption of SOP 07-1 should be permitted

1. Ms. Ham stated that the proposed FSP permits an entity that early adopted SOP 07-1 to either continue applying the provisions of the SOP or rescind its adoption. The proposed FSP also specifies that no other entity may adopt the SOP. At the time the Board made that tentative decision, it was aware that a few entities had early adopted the SOP. However, permitting early adopters to continue to apply the SOP enables a few

companies to utilize a version of the Investment Company Guide that no other entity is permitted to use.

2. Ms. Ham noted that on the other hand, the Board could require early adopters to rescind their adoption. Those early adopters would no longer be permitted to report their real estate investments at fair value. The staff believes that those entities adopted the SOP's provisions in good faith and that reporting their real estate investment properties at fair value provides more relevant financial information to users. Since the Board will soon consider whether investors in real estate investment properties should be provided a fair value option, the staff believes that requiring an entity to unwind its use of fair value and subsequently providing a fair value option seems onerous.

Issue 1 Board Vote

3. Five Board members (Herz, Batavick, Crooch, Linsmeier, and Seidman) voted not to modify the proposed FSP. In other words, they voted to allow early adopters the option to rescind their adoption and to prohibit adoption for all other entities. Messrs. Smith and Young voted to require early adopters to continue to apply the SOP and to allow all other entities the option of applying the SOP.

Issue 1 Board Comments

4. Mr. Young noted that the effective implementation of the SOP is that registered investment companies and real estate investment trusts (REITs) will adopt it and get better reporting. Ms. Seidman countered that the SOP still requires an entity to meet the criteria for an investment company, including the no active involvement criterion. She noted that AcSEC's expectation, as stated in paragraph A25 of the SOP, is that many REITs would not meet the criteria. Ms. Seidman questioned whether appropriate application of the revised scope of the guide would have the broad effect suggested by Mr. Young.

5. Mr. Young stated his belief that many of these entities would meet the criteria and having investment companies and real estate assets at fair value is a huge improvement for financial reporting. Mr. Smith agreed and noted that implementation issues like the

“tainting” provision are most likely not problems for these entities. He disagrees with prohibiting better accounting and supports allowing entities to continue adopting the SOP during the indefinite deferral.

6. Mr. Herz stated that while he agrees fair value accounting is better for the real estate industry, he does not believe this FSP needs to accomplish it. Mr. Linsmeier agreed, observing that if the Board gave an option to apply the SOP during the indefinite deferral, entities would be allowed to simply choose the version of the Guide they liked better. Mr. Young acknowledged Messrs. Herz and Linsmeier’s position, but noted that it would take the Board a long time to complete a separate project on this issue.

7. Ms. Cospers explained that View A prohibits all entities from applying the SOP, and early adopters would be required to unwind their adoption. View B gives early adopters the option to rescind their adoption and prohibits all other entities from applying the SOP. View C requires early adopters to continue applying the SOP and allows all other entities the option to apply it. Ms. Seidman suggested adding View D, which would provide a one-year deferral for the scope guidance in the SOP and an indefinite deferral for the guidance on retention of investment company accounting by parent entities and equity method investors. Other Board members did not support further consideration of such a partial deferral.

8. Messrs. Batavick and Linsmeier stated that View A is the simplest and cleanest, but it is punitive. They were also uneasy with the continuing option to adopt in View C, so they chose View B. Mr. Crooch and Ms. Seidman stated that they support View B because the Board’s action caused entities to change their accounting and systems, and they do not think it is proper to require rescission. Mr. Herz stated that even though there are good arguments for View C, he is not in favor of options and supports View B.

9. Mr. Smith emphasized that the SOP provides good scope guidance, and companies that do not foresee implementation issues would self-select adoption. Therefore, he supports View C. Mr. Young agreed and noted that View C causes the least pain to preparers.

Issue 2: Whether the effective date of the FSP should be modified

10. Ms. Barker stated that one respondent commented that if the effective date of the FSP was upon issuance, the FSP could not be enacted except retroactively after the required initial adoption of the SOP on December 15, 2007. The staff believes that the Board did not intend to require a company to (a) initially adopt the SOP for fiscal years beginning on or after December 15, 2007 (the original effective date), and (b) subsequently be required to rescind that adoption once the final FSP is issued. In other words, a calendar year company was not expected to adopt the SOP's provisions on January 1, 2008, and then unwind that adoption upon issuance of the final FSP.

Issue 2 Staff Recommendation

11. Ms. Barker stated that the staff recommends a dual effective date. The effective date for early adopters would still be upon issuance. Entities that did not early adopt but adopted pursuant to the SOP's original effective date would be required to rescind their adoption as of the day they were required to initially adopt the SOP.

Issue 2 Board Vote

12. The Board affirmed that its intent was not to require entities to adopt the SOP as of its original effective date and subsequently rescind its adoption and instructed the staff to address the issue during drafting.

Issue 3: Consistent accounting for newly formed or newly consolidated entities

13. Ms. Ham stated that since a standalone subsidiary formed or acquired after final issuance of the FSP is prohibited from applying the SOP, its standalone financial statements may differ from the values reported by the parent in consolidation. A possible solution to this issue is to allow or require those entities to apply the provisions of the SOP in their standalone financial statements.

Issue 3 Board Vote

14. The Board unanimously voted to require newly formed or newly consolidated entities to apply the provisions of the SOP in their standalone financial statements. This vote eliminated the need to discuss Issue 4.

Issue 5: Consistent accounting for equity method investors

15. Ms. Ham stated that similar to the issue just discussed regarding newly formed or newly consolidated entities, this FSP may cause an equity method investor to account for economically similar investments using different methods.

Issue 5 Staff Recommendation

16. Ms. Ham stated that such diversity exists in practice today and that the staff does not believe that a practical solution exists to address this concern.

Issue 5 Board Vote

17. The Board unanimously voted to not modify the FSP to address this issue.

Issue 6: Whether the FSP should define *adoption*

18. Ms. Ham stated that one respondent suggested that the FSP provide a definition of *adoption*. Some entities intended to early adopt the SOP, their books and records reflect the adoption of the SOP, but they may not have issued quarterly, semi-annual, or annual financial statements evidencing adoption to shareholders and/or to a governing regulatory authority.

Issue 6 Staff Recommendation

19. Ms. Ham stated that the staff recommends no change to the FSP. The staff believes that adoption would likely be readily apparent, noting that the real estate companies that early adopted would be reporting at fair value for the first time.

Issue 6 Board Vote

20. The Board unanimously voted to not add a definition of *adoption* to the FSP.

Follow-Up Items:

The Board directed the staff to proceed with the balloting process.

General Announcements: None.