MINUTES

To:	Board Members		
From:	Project Team (Cowan ext. 233)		
Subject:	Minutes of the October 11, 2006, Board Meeting on Proposed FSP FAS 144-c, "Accounting for Depreciable Assets Classified as Held-for-Sale When an Equity Method Investment Is Obtained"	**Date:**	October 16, 2006
cc:	Smith, Bielstein, MacDonald, Petrone, Leisenring, Allen, Golden, Polley, Swift, Gabriele, Project Team, 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 or Interpretation.

Topic: Proposed FSP FAS 144-c, "Accounting for Depreciable Assets Classified as Held-for-Sale When an Equity Method Investment Is Obtained"

Basis for Discussion: Board Memorandum—Board Agenda Decision: Proposed FSP FAS 144-c, "Accounting for Depreciable Assets Classified as Held-for-Sale When an Equity Method Investment Is Obtained"

Length of Discussion: 9:00 a.m. to 9:15 a.m.

Attendance:

- Board members present: Herz, Crooch, Batavick, Trott, Seidman, Linsmeier, and Young
- Board members absent: None
- Staff in charge of topic: Beswick
- Other staff at Board table: Smith, Golden, and Cowan
- Outside participants: None

Summary of Decisions Reached:

The Board decided to issue proposed FSP FAS 144-c, “Accounting for Depreciable Assets Classified as Held-for-Sale When an Equity Method Investment Is Obtained,” for public comment.

Proposed FSP FAS 144-c provides guidance on whether an entity should continue to depreciate held-for-sale long-lived assets when the entity plans to account for its direct or indirect interest in the long-lived assets under the equity method of accounting once the assets are sold.

Objective of Meeting:

The meeting’s objective was for the Board to decide whether to issue proposed FSP FAS 144-c for public comment. The objective of the meeting was met.

Matters Discussed and Decisions Reached:

1. Mr. Beswick explained that paragraph 30 of FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* states that a long-lived asset to be sold shall be classified as held-for-sale when certain criteria are met. Paragraph 34 of Statement 144 requires that an entity shall not depreciate a long-lived asset once it is classified as held-for-sale. Mr. Beswick further explained that there is diversity in practice amongst preparers on whether an entity should continue to depreciate a held-for-sale long-lived asset when the entity plans to account for its interest in the long-lived asset as an equity method investment once the asset is sold.
2. Mr. Beswick stated that this issue was discussed with the TA&I Committee. He explained that in discussing the scope of a potential FSP to address this issue, there were several scenarios considered by the Committee that cover a majority of these transactions. Mr. Beswick stated that the Committee concluded that the scope of the FSP should address all those scenarios and should not require different accounting for different scenarios. He explained that the Committee members concluded that the structure of the arrangements should not change the accounting for the long-lived assets and that the nature of the asset received was economically similar.

3. Mr. Beswick stated that the Committee considered four alternatives to address the issue including:

   Alternative A: The entity should continue to depreciate the entire long-lived asset.

   Alternative B: The entity should cease depreciating the portion of the long-lived asset that is held-for-sale.

   Alternative C: The entity should cease depreciating the entire long-lived asset.

   Alternative D: The entity should not account for the long-lived asset as held-for-sale (and therefore not depreciate the long-lived asset).

4. Mr. Beswick explained that the Committee concluded that an entity should classify the entire balance of the long-lived assets as held-for-sale and cease depreciating the long-lived assets once those long-lived assets met the held-for-sale criteria, even if the entity plans to account for its direct or indirect interest in the long-lived assets under the equity method of accounting. Mr. Beswick stated that some of the Committee members viewed the equity method investment retained by the entity as a different asset since the entity formerly held a consolidated investment. He further stated that because of the change in the nature of the asset held, those Committee members support the view that the entity should cease depreciating the assets when they are held for sale. Mr. Beswick explained that other Committee members viewed the issue as a new basis event even though current U.S. GAAP does not always account for the equity method investment as a new basis event.
5. Mr. Beswick stated that the Committee approved a recommendation to issue a proposed FSP and that the proposed FSP should be exposed for a 45-day comment period. Mr. Beswick explained that the guidance in the proposed FSP should be applied to the first reporting period beginning after the final FSP is posted to the website and that early adoption is permitted for financial statements or interim financial statements that have not yet been issued. Additionally, Mr. Beswick explained that for long-lived assets that are initially classified as held-for-sale after the effective date, an entity should cease

depreciating the long-lived assets when the long-lived assets are classified as held-for-sale. For long-lived assets initially classified as held-for-sale before the effective date, an entity shall maintain its current accounting policy for depreciating those long-lived assets.

6. Mr. Herz clarified with the staff that the long-lived assets would no longer be depreciated while held-for-sale, but the entity that sold the long-lived assets and held an equity method investment in the entity holding those assets would end up with some portion of the depreciation through its portion of the investee's income. Mr. Golden explained that the Committee reached its conclusion by referring to the basis for conclusions of Statement 144. Mr. Golden stated that Statement 144 focuses on valuation more than allocation. Additionally, Mr. Trott explained that the proposed FSP was dealing with a problem that occurs in older literature, particularly with new basis events and changing from one method of accounting (that is, consolidation) to another method (that is, the equity method).
7. Mr. Linsmeier stated that a basis for conclusions may help constituents understand the guidance in the proposed FSP better, especially if it contained the paragraphs that the Committee interpreted in reaching its conclusions. Mr. Young stated that he was concerned with reporting the transactions described by the staff in discontinued operations. He explained that reporting in discontinued operations is often problematic for users of the financial statements. Mr. Young recommended a disclosure of what depreciation would have been if the long-lived assets had continued to be held-for-use. The Board did not agree to include such a disclosure in the proposed FSP.
8. The Board unanimously agreed to issue proposed FSP FAS 144-c for public comment.

<u>Follow-Up Items</u>:

8. None

<u>General Announcements</u>:

9. None