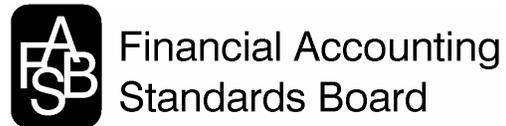


MINUTES



To: Board Members

From: Short-Term Convergence—Phase I Team (Varian,ext.353)

Subject: Minutes of the August 4, 2004 Board Meeting **Date:** August 9, 2003

cc: Bielstein, Smith, Leisenring, Swift, Polley, Gabriele, Intranet (e-mail), Project Team (J. Johnson, McKenna, Varian, Vincent), McGeachin (IASB, via 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: Earnings Per Share

Basis for Discussion: Memorandum dated July 29, 2004

Length of Discussion: 11:15 a.m. to 12:00 a.m.

Attendance:

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

Board members absent: None

Staff in charge of topic: J. Johnson

Other staff at Board table: Bielstein, Cassel, McKenna, Varian

Outside participants: Leisenring

Summary of Decisions Reached:

The Board redeliberated several issues related to the proposed Statement, *Earnings per Share*. The Board reached the following decisions:

1. The Board affirmed its decision to amend Paragraph 46 of Statement 128 to require that the number of incremental shares included in quarterly and year-to-date diluted EPS shall be computed using the average market price of common shares for the quarterly and year-to-date periods, respectively.
2. The Board decided to amend the requirements for contingently issuable shares to be consistent with the amended requirements for the treasury stock method and with IAS 33, *Earnings per Share*. Contingently issuable shares shall be included in diluted EPS from the beginning of the period during which the contingency has been satisfied, or from the date of the contingent share agreement, if later.
3. The Board decided not to require footnote disclosure of the difference between the sum of the quarterly EPS amounts and the year-end EPS amount and an explanation of the impact of share transactions on the weighting of shares entering into the computation.
4. The Board affirmed its earlier decision to delete the last sentence of paragraph 29 of Statement 128, which allows issuing entities to overcome the presumption that contracts that may be settled in cash or shares will be settled in shares. Therefore, issuing entities will be required to assume that all such contracts will be settled in shares if dilutive and those shares will be included in the calculation of diluted EPS.
5. The Board decided to modify the transition requirements of the proposed Statement. Retrospective application, which is required for all other changes to Statement 128, will not be permitted for contracts for which the option to settle in cash or shares no longer exists at the date of adoption because the contract has been either settled in cash or amended to remove the share settlement option prior to the date of adoption.
6. The Board decided to include the following definition of a mandatorily convertible instrument in the final Statement:

A mandatorily convertible instrument is one that requires the holder to exchange the instrument for a fixed number of common shares at a specified or determinable future date (or dates) or upon an event that is certain to occur, with little or no cash consideration upon the exchange.

7. The Board decided that the proposed Statement will be effective for interim and annual periods *ending* after December 15, 2004.

Objective of Meeting:

The objective of the Board meeting was to redeliberate the majority of the remaining issues related to the Exposure Draft, *Earnings per Share*.

Matters Discussed and Decisions Reached:

Ms. Varian gave a brief summary of the comment letters received on each Exposure Draft issued in December, 2003.

Mr. Johnson began by stating that the proposed Statement would require that the number of incremental shares included in quarterly and year-to-date diluted EPS under the treasury stock method be computed using the average market price of common shares for the quarterly and year-to-date periods, respectively, rather than the weighted-average basis that is currently required by Statement 128. He also stated that the overwhelming majority of respondents agreed with that method. Mr. Johnson recommended that the Board affirm its decision to replace paragraph 46. All Board members agreed.

Mr. Johnson described the next issue concerning contingently issuable shares. Statement 128 requires that contingently issuable shares be determined for year-to-date periods on a weighted-average basis. That treatment is inconsistent with paragraph 2(c) of the proposed Statement, which eliminates the weighted-average computation in applying the treasury stock method and with IAS 33, which requires that contingently issuable shares be included in diluted EPS from the beginning of the period that the conditions for issuance are satisfied, or the date of the contingent share arrangement, if later. He stated that this inconsistency was an oversight during deliberations and recommended that the requirements for contingently issuable shares be amended to be consistent with the requirements applicable to the treasury stock method and with IAS 33. All Board members agreed.

Mr. Johnson stated that one respondent requested that the Board require disclosures of the difference between the sum of the quarterly EPS amounts and the year-end EPS amount and an explanation of the impact of share transactions on the weighting of shares entering into the computation. He recommended that the Board not require such disclosures because the staff believes that these disclosures would provide little value to users and that including this requirement would likely result in boilerplate type disclosures. All Board members agreed.

Mr. Johnson stated that the Board had tentatively decided to delete the last sentence of paragraph 29, which allows issuing entities to overcome the presumption that contracts that may be settled in cash or shares will be settled in shares. If that proposal is affirmed, entities would be required to assume that all such contracts will be settled in shares if dilutive and those shares will be included in the calculation of diluted EPS. Mr. Johnson stated that about half of the respondents disagreed with this proposed change. He recommended that the Board affirm this decision. Mr. Schieneman stated that he believes allowing entities to determine whether the contracts will be settled in cash or shares results in a more representationally faithful EPS amount than the proposed change. Mr. Herz stated that although he shared some of Mr. Schieneman's concerns, he would support the proposal in the interest of convergence with IAS 33. Six Board members agreed with the staff recommendation; Mr. Schieneman disagreed.

Mr. Johnson stated that a number of constituents requested that the Board consider a modified transition with respect to contracts that have already been settled for cash and contracts that have been modified such that the issuer no longer has the option to settle them in shares, as of the date of adoption. He said that the staff recommends that retrospective application not be allowed for the contracts for which the option to settle in cash or shares no longer exists at the effective date of the proposed Statement. He stated that this change introduces a lack of consistency for an entity if the entity continues to include a share settlement provision for contracts that are typically settled in cash. If the

entity settled a contract in cash prior to the effective date, then EPS for prior periods would not be restated to reflect that contract, but going forward, the entity would have to include similar contracts in EPS. However, the effect is short-term, and he believes it is a reasonable accommodation to preparers. All Board members agreed.

The next issue discussed pertained to mandatorily convertible securities. Mr. Johnson stated that the staff recommends that the following definition be included in the final Statement:

A mandatorily convertible instrument is one that requires the holder to exchange the instrument for a fixed number of common shares at a specified or determinable future date (or dates) or upon an event that is certain to occur, with little or no cash consideration upon the exchange.

He also clarified that it is a fairly narrow group of instruments that meet this definition, and only the instruments that do meet this definition are included in basic EPS. All Board members agreed with the staff recommendation except for Ms. Seidman, who deferred deciding on this issue until the issue about the treatment of antidilutive mandatorily convertible securities is discussed at a future meeting.

The final issue discussed at this Board meeting pertained to the effective date of the Statement. Mr. Johnson stated that it was originally proposed that the Statement be effective for interim and annual periods *beginning* after December 15, 2004. He said that the staff recommends that that effective date be changed to periods *ending* after *March* 15, 2005 because, in the best case scenario, the final Statement will not be issued until the end of October. Mr. Trott did not agree with the recommendation. He argued that the Statement should be effective for periods ending after December 15, 2004. Mr. Trott stated that this Statement will apply almost solely to public companies, and public companies have a disclosure requirement, SEC Staff Accounting Bulletin No. 74, *Disclosures Regarding Accounting Standards Issued but Not Yet Adopted*, on the impact of

accounting standards that are issued but not yet effective. He thought it would be confusing to users to have one set of EPS numbers in the financial statements and a different set of EPS numbers in the notes to the financial statements due to the SAB 74 requirement if the effective date was changed to March 15, 2004. Ms. Schipper stated that this change will not be very difficult to implement, so the December 15, 2004 effective date is manageable. Four Board members agreed on Mr. Trott's recommendation, and Mr. Batavick, Mr. Herz, and Ms. Seidman do not object if, after checking with some preparers, the effective date appears reasonable.

Follow-up Items:

The staff was requested to contact a number of constituent preparers regarding the tentative decision for an effective date of December 15, 2004.

General Announcements:

None.