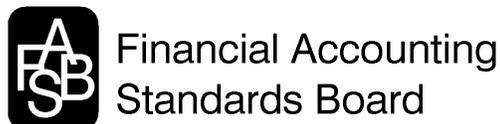


MINUTES



To: Board Members

From: Hansen (ext. 298)

Subject: Summary of March 30, 2005 Board Meeting— Proposed FSP FAS 150-e, “Warrants on Redeemable Shares” **Date:** April 7, 2005

cc: Leisenring, Bielstein, Smith, Golden, Petrone, Mahoney, Polley, Financial Instruments Team, Oakley, EBC Team, Liabilities and Equity Team, Gabriele, Getz, 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 150-e, “Warrants on Redeemable Shares”

Basis for Discussion: Board Memoranda dated March 15, 2005, and March 28, 2005.

Length of Discussion: 10:00 a.m. to 10:20 a.m.

Attendance:

Board members present:	Herz, Batavick, Crooch, Schipper, Seidman, Trott, and Young
Board members absent:	None
Staff in charge of topic:	Richards
Other staff at Board table:	Smith, Golden, Thuener, Carnrick, and Hansen
Outside participants:	None

Summary of Decisions Reached:

The Board discussed whether a proposed FSP should be issued to clarify the applicability of Statement 150 and FSP FAS 150-1 to warrants on redeemable shares and decided:

- a. To issue the proposed FSP clarifying that warrants and options on redeemable shares are liabilities under paragraph 11 of FASB Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*, and FSP FAS 150-1, “Issuer's Accounting for Freestanding Financial Instruments Composed of More Than One Option or Forward Contract Embodying Obligations under FASB Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*,” regardless of the redemption timing or price.
- b. That the proposed FSP would have a cumulative-effect transition according to the provisions of Statement 150.

The Board instructed the staff to proceed to a draft of a proposed FSP for vote by written ballot and to post that proposed FSP to the website with a 45-day comment period.

Objective of Meeting:

The objective of the meeting was to determine whether a proposed FSP should be issued to clarify the applicability of Statement 150 and FSP FAS 150-1 to warrants on redeemable shares. The objective of this meeting was accomplished.

Matters Discussed and Decisions Reached:

1. Ms. Richards introduced the topic of how warrants on redeemable shares (both mandatorily redeemable and puttable) are classified under Statement 150 and FSP 150-1, and whether a proposed FSP should be issued to clarify the Board’s decision. She stated that paragraph 11 of Statement 150 requires liability classification for instruments that embody obligations to repurchase an entity’s own shares that requires or may require a transfer of assets. She stated that FSP 150-1 clarified that cash settled puttable warrants and warrants on puttable or mandatorily redeemable shares are liabilities under paragraph 11 because they embody obligations to repurchase shares (or are indexed to such an obligation) and may require an entity to transfer assets.

2. Ms. Richards stated that Example 2 in FSP FAS 150-1 illustrates a warrant on puttable shares in which the shares are puttable immediately and at a fixed price. As a

result of the example, constituents have questioned whether the timing or price of the redemption feature affects whether an instrument is a liability under paragraph 11. She further stated that a constituent questioned whether options on puttable shares are included within the scope of Statement 150.

3. Ms. Richards noted that the question arose within the context of a financing arrangement, however, many options on puttable shares are issued as part of stock compensation arrangements. She further explained that stock compensation arrangements that are no longer subject to the classification guidance under Statement 123(R) are classified in accordance with other applicable GAAP, including Statement 150. Therefore, the staff considered the interaction of Statements 123(R) and 150 relating to this issue. She stated that, under Statement 123(R), options on shares that are puttable within six months after exercise of the warrant or at a fixed price are liabilities. Options on mandatorily redeemable shares are classified as liabilities if the underlying shares are liabilities (unless subject to the deferral under FSP FAS 150-3). Otherwise, such options would be classified as equity. She further explained that because of that classification guidance in Statement 123(R) for options on redeemable shares, such options that are classified as equity under Statement 123(R) would be reclassified as liabilities at the time that guidance no longer applies. She stated that, under Statement 123(R), options on redeemable shares are not the only instrument in which reclassification may arise when that Statement no longer applies (as illustrated in the table included in the memo distributed to Board members.)

4. Ms. Richards presented six alternatives that deal with both financing and stock compensation arrangements as they relate to this issue:

- a. **Retain Current Requirements:** Options on redeemable shares are liabilities regardless of the redemption timing or price.
- b. **Scope Out EBC Options:** Same as (a) but scope out EBC options on redeemable shares from Statement 150.
- c. **Six-Month Method (or some other time period):** Options on puttable shares are liabilities if the underlying shares can be put back within six months of issuance, and options on mandatorily redeemable shares are liabilities unless the underlying shares are deferred by FSP 150-3.

d. **EBC and Nonpublic Entity Scope Out:** Scope out EBC options on redeemable shares from Statement 150 and allow other nonpublic entity options on redeemable shares to be equity if the underlying shares are equity.

e. **Retain Statements 150 and 123 Classification:** Same as (a) and consider requiring all EBC awards to continue to be classified as they are in Statement 123R.

f. **Combination of (d) and (e):** Require all EBC awards to continue to be classified as they are in Statement 123R and allow other nonpublic entity options on redeemable shares to be equity if the underlying shares are equity.

5. Ms. Richards stated that some of the staff recommend view (a) and others recommend view (c). She stated that some staff believe approach (c) establishes an arbitrary bright-line, would result in classification complexity, and could have implications on other instruments under Statement 150. She stated that all staff members recommend issuing a proposed FSP clarifying Statement 150 and that the cumulative effect as described under Statement 150 be required for transition. Additionally, Ms. Richards stated that the staff members that support view (a) also would not object to view (e). Those staff members are concerned that the issue relating to reclassification after Statement 123(R) would no longer apply for classification purposes and may continuously arise for other circumstances. Therefore, they would support one consistent way of analyzing those instruments—either continue to apply Statement 123(R) (as in view (e)) or apply other GAAP for all instruments.

6. Ms. Seidman and Mr. Batavick supported view (e). Ms. Seidman stated that she does not want to reconsider the Statement 150 conclusion to treat warrants on redeemable shares as liabilities because the liabilities and equity project will be considering that issue. She stated however, that the question can not be answered in isolation because Statement 123(R) will transfer similar instruments (where a different classification conclusion was reached) into the scope of Statement 150. She stated that she believes the cost and complexity associated with changing from Statement 123(R) to Statement 150 (or other applicable GAAP) for classification outweigh the benefits and she would prefer to continue classifying all instruments under Statement 123(R). Mr. Young and Mr. Batavick agreed with Ms. Seidman; however, Mr. Young supported view (a) because he does not want to change decisions reached in Statement 123(R).

7. The remaining Board members supported view (a). Ms. Schipper stated that rights to buy redeemable shares that are not issued to employees are clearly liabilities under Statement 150 and the passage of time does not matter. She noted that the Board decided in Statement 123(R) that when the employee moves from the position of providing services to the financing position, the classification of the instrument moves to other applicable GAAP. In deliberations of Statement 123(R), the Board already considered the implication that the other applicable GAAP might not have the special classification rules the Board provided for compensation arrangements. She stated that she is not willing to change the Board's decision in Statement 123(R) as described in view (e).

8. Mr. Trott stated that view (a) is consistent with Statement 150. He believes that the guidance in the proposed FSP is correct, consistent, and appropriate for financing instruments. He stated that even though it is true that paragraph 31 of Statement 123(R) would classify certain of those instruments as equity, he believes that the reclassification issue as it relates to this issue focuses on a limited set of circumstances. That is, in order for reclassification to occur, the instrument would have to (a) be in the form of a warrant on a puttable share, (b) be compensation, and (c) not have a 90-day post employment exercise period. He stated that he did not believe it was necessary to change Statement 123(R) because it would add unnecessary complications.

9. Ms. Richards stated that the proposed FSP was drafted with a cumulative effect transition according to the provisions of Statement 150 and FSP FAS 150-1. Mr. Golden suggested a 45-day comment period for the proposed FSP.

10. All Board members unanimously agreed with the staff's recommendation on transition and comment period.

Follow-up Items:

None

General Announcements:

None