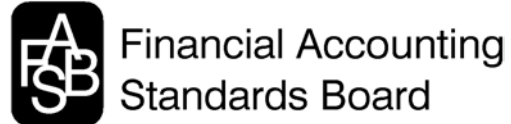


## MINUTES



**To:** Board Members

**From:** Stell (ext. 211)

**Subject:** Minutes of the June 18, 2003  
Board Meeting

**Date:** June 24, 2003

**cc:** Bielstein, Smith, Petrone, Leisenring, Project Team, Mahoney, Munro, Thompson, Sutay, Gabriele, Swift, Polley, Allen, Bean, Patton, FASB Intranet

Topic: Stock-Based Compensation:  
Measurement Date for Nonemployee  
Transactions

Basis for Discussion: Board memorandums dated  
June 6, 2003; June 12, 2003; &  
June 13, 2003

Length of Discussion: 9:00 a.m. to 10:35 a.m.

Attendance:

Board members present: Herz, Trott, Schipper, Foster, Crooch,  
Wulff, and Schieneman

Board members absent: None

Staff in charge of topic: Tovey

Other staff at Board table: Cassel, Maffei, and Stell

Outside participants: None

**Summary for ACTION ALERT:**

The Board discussed measurement of stock-based transactions with nonemployees. All Board members agreed that the measurement objective should be the same for both employee and nonemployee stock-based compensation transactions. The Board directed the staff to explore the notion of exchange date as the measurement objective for all stock-based compensation transactions.

**Matters Discussed and Decisions Reached:**

The Board discussed the alternatives for measurement of stock-based transactions with nonemployees, including grant date, service date, vesting date, exercise date, performance commitment date, and exchange date.

Mr. Trott expressed the view that the Board should strive for a single measurement objective that could be applied to different types of compensation arrangements. He added that grant-date and other measurement-date alternatives cannot be applied to the wide variety of employee and nonemployee arrangements that exist today, but noted that the notion of exchange date may offer enough flexibility to achieve this objective.

The Board discussed a staff-proposed definition of exchange date as “the date at which an exchange occurs.” The staff noted that an exchange includes an exchange of assets for assets, an exchange of assets for equity, an exchange of promises that terminates in an exchange of assets for equity, or other similar types of economic arrangements. The staff further noted that the basis of an exchange is a contract, which serves to establish a mutual understanding and embodiment of the terms of the exchange. The staff also added that an exchange of promises is deemed to occur if a contract between the contracting parties and counterparties meets the definition of a firm commitment.

Mr. Trott then evaluated whether an exchange-date measurement objective would be inconsistent with the decision made in the Business Combinations—Purchase Method Procedures project, which stated that the fair value of the acquired entity should be measured as of the date that control is obtained. Mr.

Trott concluded that decision would be consistent with the exchange-date notion. Mr. Trott also noted that an exchange-date measurement objective may place additional pressure on the definition of a firm commitment or contract, but expressed the view that in the case of employee services, the commitment is an enforceable contract at the moment the employee begins to provide services.

Mr. Wulff stated that he generally supported the exchange-date notion and added that a recordable event does not occur until either performance under the contract begins or the time when the service provider has substantially committed to perform under the contract. He also noted the importance of defining exchange date in a manner consistent with the way that term might be used in the Revenue Recognition project.

Mr. Schieneman noted that for employee transactions, the granting of an option is the reportable event and the issuing company has an obligation at that time. He also noted that there is an element of compensation present at grant date.

Ms. Schipper stated that the Board should separate compensation elements from investing and financing elements in this project, and the form of settlement should be taken into careful consideration. She also noted that the Board should strive to achieve consistency across all arrangements (employee and nonemployee) and should avoid trying to tie the accounting to legal regulations. She added that there is a great deal of difficulty in trying to identify a performance-commitment date (Issue 96-18 date) and, therefore, recommended that the Board focus on the notion of exchange date, which should be the date that economic benefits begin to be transferred.

Mr. Crooch stated that he supported the exchange-date notion and suggested that the staff continue to press forward with the issues relating to employee stock-based compensation transactions, while assigning more staff (if current resources allow) to focus on the nonemployee transactions. He also noted that it is very important that the Board pursue a consistent approach in accounting for all types of arrangements.

Mr. Wulff again stated his support for exchange-date accounting, but affirmed his preference to use more of a vesting-date driven exchange date, in which partial recognition would occur at grant date, with the remainder being recognized later.

Mr. Foster stated that he firmly supported vesting date, which he defined as the day an equity instrument is issued and/or the date that all performance conditions are achieved.

Mr. Herz noted that he is willing to explore the exchange-date notion, but also could support the IASB's approach, in which the equity granted is measured based on the value received by the organization. He added that there should be some recognition in the interim, but was unsure of what value should be used. He further stated that there may be some difficulty applying the exchange-date model to contracts whose terms are based on contingent factors.

Five Board members (EWT, KAS, GMC, JKW, GSS) agreed to direct the staff to further develop the notion of an exchange-date measurement objective for employee and nonemployee transactions. One Board member (JMF) supported a vesting date approach, and another Board member (RHH) stated that while he would not object to the staff further exploring exchange-date accounting, he would present the IASB model as an alternative approach.

**Follow-up Items:**

None.

**General Announcements:**

None.