MINUTES

To:	Board Members
From:	Financial Instruments: Liabilities and Equity Team (Belot, ext. 363)
Subject:	Minutes of the October 8, 2003 Liabilities and Equity Board Meeting
Date:	October 14, 2003
cc:	Leisenring, Bielstein, Smith, Cassel, Financial Instruments Liabilities and Equity Team, Mahoney, Swift, Polley, Sutay, Gabriele, Petrone, Thompson, FASB Intranet

<u>Topic</u>: Financial Instruments: Consideration of delayed effective date for Statement 150's applicability to the measurement of mandatorily redeemable shares of finite-lived entities

<u>Basis for Discussion</u>: Comment letters received on proposed FSP

<u>Length of Discussion</u>: 2:30 p.m. to 3:00 p.m.

<u>Attendance</u>:

Board members present:	Herz, Crooch, Seidman, Schieneman, Schipper, Trott, and Batavick
Board members absent:	None
Staff in charge of topic:	Smith
Other staff at Board table:	None
Outside participants:	None

Summary for ACTION ALERT:

The Board discussed whether to issue a FASB Staff Position (FSP) to delay the effective date for measurement of certain mandatorily redeemable financial instruments under FASB Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. Specifically, the Board considered delaying the effective date for finite-lived entities that under Statement 150 are reported in the parent's consolidated financial statements as mandatorily redeemable noncontrolling interest liabilities. The Board decided not to issue an FSP on this matter.

Matters Discussed and Decisions Reached:

Mr. Smith briefly introduced the Board's discussion of whether to delay the effective date for measurement of mandatorily redeemable financial instruments of finite-lived entities under Statement 150. He stated that many constituents affected by those provisions only recently became aware of their inclusion in Statement 150's scope. Many entities are concerned about the implications of applying those provisions of Statement 150, because, upon transition, the liability is to be measured at the amount that would be paid if settlement occurred on the reporting date; and subsequently, increases or decreases in the value of the net assets of the issuing entity may cause corresponding increases or decreases in the reported amount of the liability. Those changes are reported through the income statement; however, corresponding changes in the fair value of assets and other liabilities reported (those that are not carried at fair value) may not be reported in income. The Board was asked to determine whether to retain the effective date required by Statement 150, or to delay the effective date for measurement of mandatorily redeemable financial instruments of finite-lived entities through an FSP.

Board members preferring to retain the effective date required by Statement 150 stated that the implications of reporting the liability at fair value were considered and discussed during deliberations prior to the issuance of Statement 150. [KAS, EWT, MGC, and RHH] The constituents currently expressing concern do not support their claims with any new information; therefore, the delayed effective date is unwarranted. Those Board members also agreed that the particular issue at question is part of a more pervasive problem relating to the 'mixed-attribute' model of current financial reporting. That model is the result of different measurement methods used for different kinds of assets and liabilities in current accounting literature. Therefore, those Board members would not compromise earlier decisions but rather, would focus on resolving the 'mixed-attribute' model in the future.

Board members preferring to defer the effective date of Statement 150's applicability to the measurement of mandatorily redeemable financial instruments of finite-lived entities argued that the measurement mismatch created between the asset and liability values does not provide relevant information to users of financial statements. [GSS, LFS, and GJB] Ms. Seidman expressed her concern that the requirements of Statement 150 are not fully understood by certain preparer groups, because clarification of the provision requiring financial institutions to report mandatorily redeemable noncontrolling interests in the consolidated financial statements appears in a footnote to the Statement. Furthermore, the background information and basis for conclusions of Statement 150 does not include an in-depth discussion of this issue. Those Board members believe that the effective date of the applicable provisions of Statement 150 should be delayed to allow constituents additional time to adjust to its requirements or to allow the Board to reconsider the measurement requirements.

The Board decided to retain the original effective date and related guidance set forth in Statement 150. [Four members agreed; GSS, LFS, and GJB disagreed]

Follow-Up Items:

None.

General Announcements:

None.