



**Agenda Request—Delay of the Effective Date of FIN 48
Board Meeting Handout**

January 17, 2007

The purpose of this Board meeting is to ask the Board to consider agenda requests to delay the effective date of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*. FIN 48 was issued in July of 2006, and is effective for fiscal years beginning after December 15, 2006.

Issues raised in comment letters received can be sorted into three main categories: (1) implementation issues regarding the requirements of FIN 48, (2) other consequences from implementation of FIN 48 that are not directly associated with its provisions, and (3) industry or entity specific concerns.

Accounting Issues and Alternatives

Question 1: Does the Board want the staff to develop implementation guidance on FIN 48?

Alternative 1 – No, the Board is not aware of any issues that warrant implementation guidance at this time.

Alternative 2 – Yes, the Board would like the staff to develop implementation guidance for Board consideration at a future meeting. (Staff Recommendation)

Question 2: Does the Board wish to delay of the effective date of FIN 48?

Alternative 1 – No, the Board has not received any additional information that would warrant a need to delay the effective date of FIN 48. (Staff Recommendation)

Alternative 2 – Yes, the Board would like the staff to draft an FASB Staff Position to delay the effective date of FIN 48.



Board Meeting Handout

Proposed FSP FAS 128-a, “Computational Guidance for Computing Diluted EPS under the Two-Class Method”

January 17, 2007

PURPOSE

The purpose of this meeting is for the Board to discuss whether to approve for issuance a proposed FASB Staff Position (FSP) to provide computational guidance for diluted earnings per share (EPS) when applying the two-class method pursuant to FASB Statement No. 128, *Earnings per Share*.

BACKGROUND

Paragraphs 60 and 61 of Statement 128 established the guidance for including participating securities and two-class common stock (collectively referred to herein as participating securities) in the computation of EPS. In reference to participating securities, paragraph 61 provides that “for those securities that are not convertible into a class of common stock, the 'two class' method of computing earnings per share shall be used.” The EITF, in Issue No. 03-6, “Participating Securities and the Two-Class Method under FASB Statement No. 128,” provided further clarification on the definition of participating securities and reached a consensus (in Issue 7) that convertible participating securities should always be included in the computation of basic EPS using the two-class method. Additionally, in situations in which an entity has multiple classes of common stock, paragraph 61(d) of Statement 128 requires that “basic and diluted EPS data shall be presented for each class of common stock.”

The existing literature provides clear examples of the application of the two-class method in computing basic EPS. In contrast, the computation of diluted EPS applying the two-class method has not been specifically addressed or illustrated in the existing literature. As a result, questions have been raised regarding the diluted EPS computation in the scenario when an entity has common stock, participating securities, and potential common stock. While the requirement to display diluted EPS using the two-class method

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has been in effect since 1998 (the effective date of Statement 128), computational questions have recently come to the forefront as a result of (a) the consensus reached by the EITF in Issue 03-6, which expanded the definition of a participating security and thereby increased use of the two-class method for computing EPS, and (b) the recently proposed FSP EITF 03-6-a, “Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities,” that addresses whether instruments granted in share-based payment transactions may be participating securities prior to vesting and, therefore, need to be included in basic EPS using the two-class method.

TA&I COMMITTEE RECOMMENDATION

The TA&I Committee approved a recommendation to the Board to issue a proposed FSP. The proposed FSP would provide constituents with guidance on the computation of diluted EPS under the two-class method in situations in which an entity’s capital structure includes common stock, participating securities, and potential common stock.

Does the Board agree with the TA&I Committee’s recommendation and does it approve the issuance of a proposed FSP?

COMMENT PERIOD AND TRANSITION

The staff recommends that the proposed FSP should be exposed for a 60-day comment period. The effective date should be the first reporting period beginning after the date the final FSP is posted to the FASB website. All prior-period EPS data presented shall be adjusted retrospectively (including interim financial statements, summaries of earnings, and selected financial data) to conform with the provisions of this FSP.

Does the Board agree with the staff’s recommendation regarding the comment period and proposed transition requirements?