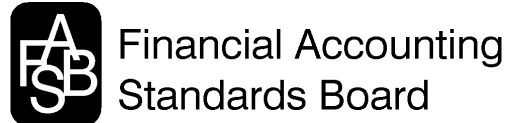


MINUTES



To: Board Members

From: Revenue Recognition Team
(Wilson, ext. 275)

Subject: Minutes of the June 11, 2003 Board Meeting **Date:** June 17, 2003

cc: Seidman, Leisenring, Bielstein, T. Johnson, Smith, Petrone, MacDonald, Mahoney, Swift, Polley, Thompson, Gabriele, Sutay, Patton (GASB), Slayton, Manders, Wilson, Kazazean, Cohen, Cropsey, Lapolla, Paul (IASB), Intranet

Topic: Revenue Recognition – Contractual Rights and Obligations

Basis for Discussion: Memorandums dated May 30, 2003 and June 10, 2003

Length of Discussion: Starting Time: 9:00 a.m. Concluding Time: 10:10 a.m.

Attendance:

Board members present:	FASB: Herz, Crooch, Foster, Trott, Schieneman, Schipper, Wulff
	IASB: Leisenring
Board members absent:	None
Staff in charge of topic:	Johnson
Other staff at Board table:	Bielstein, Slayton, Cropsey, Manders, Wilson, Kazazean
Outside participants:	Paul (by phone)

Summary for ACTION ALERT:

The Board discussed issues relating to contractual rights and obligations, in particular, a proposed conceptual model for analyzing whether assets and liabilities stem from those rights and obligations. Some of the principal conceptual issues are:

- Whether contractual rights meet the definition of assets and contractual obligations meet the definition of liabilities
- Which contractual rights and obligations meet those definitions
- The nature of those assets and liabilities
- How those assets and liabilities should be measured.

The Board considered the economic consequences that contractual rights have for their holders and their related contractual obligations have for their obligors. The Board agreed in principle that conditional rights and obligations do not meet the definitions of assets and liabilities, and that unconditional and mature rights and obligations might meet those definitions. The Board also agreed in principle that when recognized, those rights and obligations should be measured at their fair values. The Board directed the staff to further explore issues relating to the proposed conceptual model, including the effects of stated contractual penalties and legal remedies that require specific performance rather than the payment of monetary damages.

Matters Discussed and Decisions Reached:

The Board's discussion focused on a proposed conceptual model for analyzing whether assets and liabilities stem from contractual rights and obligations. The staff noted that, in current practice, assets and liabilities arising from revenue transactions generally are recognized when one of the parties to the contract at least partially performs. However, any assets or liabilities that might arise from the *promises* exchanged in conjunction with entering into wholly executory (entirely unexecuted) contracts generally are not recognized.

The staff noted several of the principal conceptual issues. Those issues included: (1) whether contractual rights meet the definition of assets and contractual obligations meet the definition of liabilities, (2) which contractual rights and obligations meet those

definitions, (3) the nature of those assets and liabilities, and (4) how those assets and liabilities should be measured.

The Board agreed in principle that conditional rights and obligations do not meet the definitions of assets and liabilities, and that unconditional and mature rights and obligations might meet those definitions. In addition, when those unconditional rights and obligations are recognized, they should be measured at their fair values. Mr. Trott noted that the identification of conditional performance obligations might be necessary because a conditional obligation becomes unconditional if either party performs. He also raised concerns about (1) the need to distinguish an offer from an exchange of promises, (2) the usefulness of information provided when a contract is separated into various components, and (3) whether the accounting for the buyer and seller should be symmetrical.

The staff noted that pre-performance assets and liabilities resemble options and are akin to call options and put options. Mr. Wulff agreed conceptually with that statement but asked the staff to provide additional evidence to demonstrate that the resulting assets and liabilities could be measured with sufficient reliability. Mr. Schieneman expressed concerns about how useful pre-performance information would be to users, and focused on whether the information (1) would aid users in forecasting, and (2) could be reliably measured.

Ms. Schipper noted that while the recognition of those elements might not aid in the forecasting of revenues, the disaggregation might have other predictive utility. She stated that empirical research supports the fact that predictive ability is enhanced when aggregated information is separated into components that are economically similar.

Follow-up Items:

The Board directed the staff to further explore issues relating to the proposed conceptual model, including the effects of stated contractual penalties and legal remedies that require specific performance rather than the payment of monetary damages. In addition, per Ms.

Schipper's request, the staff will provide further analysis by applying the proposed conceptual model developed to date to existing accounting guidance for long-term contracts, real estate, loan origination fees, and multiple element contracts.

General Announcements:

None