

MINUTES



**To:** Board Members  
**From:** Ham (ext. 443)  
**Subject:** Minutes of December 12, 2007 Board Meeting: Ratification of EITF Consensuses and Consensus-for-Exposure  
**Date:** January 10, 2008  
**cc:** Bielstein, MacDonald, Golden, Cospers, Wyatt, Paul, Bolash, Stevens, Fanzini, Leverenz, Zecher, Ham, Staniszewski, Allen, Gabriele, Posta, Chookaszian, Richter, Leisenring, FASB Intranet

*The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. Official consensus positions of the EITF are presented in meeting minutes and in EITF Abstracts. Board ratification of a consensus-for-exposure permits the exposure of a draft abstract for public comment. Board ratification of an EITF consensus completes the overall due process of developing a consensus as set forth in EITF Abstracts, Topic No. D-1, "Implications and Implementation of an EITF Consensus."*

Topic: Board ratification of the consensuses reached on EITF Issues Nos. 07-1 and 07-6, and the consensus-for-exposure reached on EITF Issue No. 07-4

Basis for Discussion: Board Memorandum dated December 5, 2007

Length of Discussion: 9:00 a.m. to 9:20 a.m.

Attendance:

Board members present: Herz, Batavick, Crooch, Linsmeier, Seidman, Smith, and Young  
Board members absent: None  
Staff in charge of topic: Paul  
Other staff at Board table: Cospers, Golden, Ham, and Staniszewski  
Outside participants: None

Summary of Decisions Reached:

The Board considered and ratified consensuses reached at the November 29, 2007 EITF meeting on Issues No. 07-1, "Accounting for Collaborative Arrangements," and No. 07-6, "Accounting for the Sale of Real Estate Subject to the Requirements of FASB Statement No. 66 When the Agreement Includes a Buy-Sell Clause."

The Board also considered and ratified the consensus-for-exposure reached at the November 29, 2007 EITF meeting on Issue No. 07-4, "Application of the Two-Class Method under FASB Statement No. 128 to Master Limited Partnerships." The Board approved the exposure of a draft abstract for Issue 07-4 for a comment period that will end on February 8, 2008. The draft abstract is expected to be posted to the FASB website after December 18, 2007.

Objective of Meeting:

The objective of the meeting was for the Board to ratify the consensuses reached on two Issues and the consensus-for-exposure reached on a third Issue. The objective of the meeting was met.

Matters Discussed and Decisions Reached:

**RATIFICATION OF CONSENSUSES**

**Issue 07-1**

1. Mr. Paul stated that the Task Force affirmed as consensuses the consensuses-for-exposure on four issues in Issue 07-1. On Issue 1, the consensus is that a collaborative arrangement is a contractual arrangement in which the parties are active participants to the arrangement and are exposed to significant risks and rewards that are dependent on the ultimate commercial success of the endeavor.
2. The consensus on Issue 2 is that transactions with third parties should be reported gross or net on the appropriate line item in each entity's respective financial statements pursuant to the guidance in EITF Issue No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent." On Issue 3, the consensus is that the income

statement classification of payments between participants pursuant to a collaborative arrangement be evaluated based on the nature of the arrangement, the nature of each entity's business operations, and the contractual terms of the arrangement. Task Force members observed that participants pursuant to a collaborative arrangement need to evaluate other authoritative accounting literature regarding recognition, measurement, and classification of the transactions being considered.

3. The consensus on Issue 4 is that a participant in a collaborative arrangement should annually disclose specific information about the arrangement and amounts associated with the arrangement. Those disclosures are listed in the Board Meeting Handout and in the meeting discussion materials. The Task Force decided to exclude from the consensus the following two disclosures: the stage of the underlying endeavor's life cycle and the amounts due from or owed to other participants under the collaborative arrangements.
4. The Task Force reached a consensus that this Issue should be effective for fiscal years beginning after December 15, 2008, which is a change from its consensus-for-exposure. Entities should report the effects of applying this Issue as a change in accounting principle through retrospective application to all periods presented for all arrangements existing at the effective date.
5. Mr. Paul asked if the Board wanted to ratify the final consensus on Issue 07-1. Mr. Young noted that he remembered the discussion about removing the disclosure on the life cycle, but he did not recall a discussion on the removal of the other disclosure. Mr. Golden responded by explaining the basis for that decision. He stated that the staff's original recommendation was for the disclosures to be predicated on FASB Statement No. 57, *Related Party Disclosures*. In the case of collaborative arrangements, the parties that enter into the transaction are unrelated. Therefore, there should be no difference in analyzing the credit risk of receivables in collaborative arrangements compared to other third party receivables. In other words, no extra emphasis needs to be placed on those receivables. Furthermore, if parties to a collaborative arrangement meet the definition of related parties in Statement 57, the disclosure would be required under that guidance.

6. Mr. Young suggested that the disclosure information would still be relevant even if the parties were unrelated. Ms. Cospers stated that the Task Force thought the income statement classification disclosure was more relevant than amounts due from or owed to other participants under the collaborative arrangements.
7. Mr. Herz noted that he thought parties became related after they entered into a collaborative arrangement. Mr. Golden responded that parties to a collaborative arrangement are generally not viewed as related parties under Statement 57. Ms. Seidman mentioned that she thought the disclosure was removed because it was simply too broad. In other words, the amounts due from or owed to other participants had little to do with the actual collaborative arrangement.
8. The Board agreed to ratify the consensuses reached in Issue 07-1 (no Board members objected).

**Issue 07-6**

9. For Issue 07-6, Mr. Paul stated that the Task Force affirmed as a consensus the consensus-for-exposure that a buy-sell clause should be evaluated based on facts and circumstances to determine whether the clause constitutes an option or other form of prohibited continuing involvement. In addition, the Task Force decided to exclude from the consensus the example factors that were presented in paragraph 8 of the draft abstract.
10. The Task Force also reached a consensus that this Issue should be effective for new arrangements entered into and assessments of existing transactions originally accounted for under the deposit, profit-sharing, leasing, or financing methods for reasons other than the existence of a buy-sell clause, performed in fiscal years beginning after December 15, 2007, and in interim periods within those fiscal years. Earlier application is not permitted.
11. Mr. Paul asked if the Board wanted to ratify the final consensuses on Issue 07-6. Mr. Linsmeier commented that the actual nature of buy-sell arrangements is bilateral. He does not agree with issuing guidance that says a bilateral arrangement should not automatically be assumed to be a one-sided arrangement or an option. Furthermore,

12. Mr. Herz observed that some constituents took the position that the mere existence of a buy-sell clause precluded an analysis of the facts and circumstances. Because of the way practice has evolved, those constituents want official guidance stating that it has changed. Mr. Golden also explained that while most current accounting for buy-sell clauses is consistent with the final consensus, a Task Force member stated that there have been and currently are situations in which auditors tell clients that a buy-sell clause prohibits gain recognition. As a result, some buy-sell clauses are being removed from contracts and are thereby not evaluated. Thus, Mr. Golden noted that the staff may have false positives about the treatment of buy-sell clauses in practice and that the guidance may be needed more than was initially thought. Mr. Smith concurred that there seems to be some confusion in application and that the guidance should be issued.
13. The Board agreed to ratify the consensuses reached in Issue 07-6 (two Board members objected). Mr. Crooch objected because he believes that if a buy-sell clause exists, one cannot assume it will not be invoked. Mr. Linsmeier objected because he believes the guidance is not necessary.

## **RATIFICATION OF CONSENSUS-FOR-EXPOSURE**

### **Issue 07-4**

14. Mr. Paul stated that for Issue 07-4, the Task Force decided to change its previous consensus-for-exposure reached at the September 11, 2007 EITF meeting on how to allocate current-period earnings to the general partner (GP), limited partners (LPs), and incentive distribution right (IDR) holder of a master limited partnership (MLP) when current-period earnings exceed cash distributions. The Task Force reached a consensus-for-exposure that when current-period earnings are in excess of cash distributions, undistributed earnings should be allocated to the GP, LPs, and IDR holder utilizing the contractual terms of the partnership agreement. The distribution waterfall (a schedule that prescribes distributions to the various interest holders) for

available cash specified in the partnership agreement contractually mandates the way in which earnings are distributed for the period presented. The undistributed earnings shall be allocated to the IDR holder based on the contractual participation rights of the IDR to share in current period earnings. Therefore, if the partnership agreement includes a "specified threshold" as described in Example F in paragraph 16 of EITF Issue No. 03-6, "Participating Securities and the Two-Class Method under FASB Statement No. 128," an MLP shall not allocate undistributed earnings to the IDR holder once the specified threshold has been met. In determining whether a specified threshold exists, an MLP should evaluate whether distributions to the IDR holder would be contractually limited to available cash as defined in the partnership agreement. If distributions to the IDR holder would be contractually limited to available cash as defined in the partnership agreement, then the MLP would not allocate undistributed earnings to the IDR holder.

15. The Task Force also decided to change its previous consensus-for-exposure on the effective date of this Issue. The Task Force reached a consensus-for-exposure that this Issue should be effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The guidance in this Issue should be applied retrospectively for all financial statements presented.

16. Mr. Paul asked if the Board wanted to ratify the consensuses-for-exposure on Issue 07-4. The Board agreed to ratify the consensuses-for-exposure reached in Issue 07-4 (no Board members objected).

Follow-up Items:

17. The staff was asked to contact analysts at RiskMetrics for comments on Issue 07-4.

General Announcements:

18. None