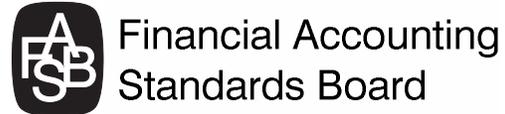


MINUTES



**To:** Board Members  
**From:** Hamilton, ext. 330  
**Subject:** Minutes of December 15, 2004                      **Date:** December 28, 2004  
Derivative Implementation Board  
Meeting  
**cc:** Bielstein, Smith, Golden, Petrone, Polley, Swift, Leisenring, Sutay,  
Thompson, Getz, Gabriele, Intranet, Project Team

*The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue a final Statement or Interpretation.*

Topic: Derivatives Implementation: Revisions to  
Statement 133 Implementation Issues No. C3,  
No. E19, and No. G1 Resulting from the  
Issuance of Statement 123(R)

Basis for Discussion: Memorandum dated December 9, 2004

Length of Discussion: 1:45 p.m. to 2:00 p.m.

Attendance:

Board members present: Herz, Batavick, Crooch, Schieneman,  
Schipper, Seidman, and Trott

Board members absent: None

Staff in charge of topic: Belcher

Other staff at Board table: L. Smith, Wilkins, Laurenzano, and Hamilton

Outside participants: None

Summary of Decisions Reached:

The Board did not object to the staff's posting of proposed revised Statement 133 Implementation Issues No. C3, "Exception Related to Share-Based Payment Arrangements," No. E19, "Methods of Assessing Hedge Effectiveness When Options Are Designated as the Hedging Instrument," and No. G1, "Hedging an SAR Obligation," on the FASB website as cleared guidance. The Implementation Issues have been revised to incorporate guidance in FASB Statement No. 123 (revised 2004), *Share-Based Payment*.

Objective of the Meeting:

The objective of the meeting was for the Board to decide whether it should clear proposed revised Implementation Issues No. C3, No. E19, and No. G1, all of which have been revised to incorporate the guidance in Statement 123(R).

Matters Discussed and Decisions Reached:

1. Mr. Belcher stated that the issuance of Statement 123(R) will effectively amend three Implementation Issues: No. C3, No. E19, and No. G1. He stated that the staff is asking the Board whether it objects to the staff's posting this revised guidance to the FASB website this month, concurrently with the posting of Statement 123(R).

**Implementation Issue C3**

2. Mr. Belcher stated that paragraph 11(b) of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, currently provides a scope exception for contracts issued in connection with stock-based compensation arrangements addressed in the original FASB Statement No. 123, *Accounting for Stock-Based Compensation*. He stated that Implementation Issue C3 clarifies that this exception also is applicable to equity instruments (including stock options) granted to nonemployees as compensation for goods and services.

3. Mr. Belcher stated that Statement 123(R) will amend the paragraph 11(b) scope exception provided for contracts issued in connection with stock-based compensation arrangements in Statement 133, limiting the scope exception to only those contracts that are currently subject to Statement 123(R). He stated that if a contract that was initially subject to Statement 123(R) ceases to be subject to that Statement, the contract will no longer be afforded the paragraph 11(b) scope exception provided in Statement 133; Statement 123(R) provides guidance for when a contract is no longer subject to its provisions.
  
4. Mr. Belcher stated that Implementation Issue C3 is being revised to limit the paragraph 11(b) scope exception to only those share-based payment contracts with nonemployees that are subject to Statement 123(R), clarifying that once the performance related to the share-based payment transaction has occurred, the contract no longer is afforded the paragraph 11(b) scope exception.
  
5. Mr. Belcher enumerated some additional minor changes to Implementation Issue C3:
  - a. The phrase “stock-based compensation arrangements” in the title of this Implementation Issue will be changed to “share-based payment arrangements” to conform to the new title of Statement 123(R).
  - b. The question in this Implementation Issue also will be reworded to conform to this new language.
  - c. References to certain sections of Statement 123(R) in this Implementation Issue will be updated to reflect some late drafting changes to Statement 123(R).

#### **Implementation Issue E19**

6. Mr. Belcher stated that Implementation Issue E19 provides guidance with respect to assessing hedge effectiveness when options are designated as the hedging instrument. He stated that the revisions to this Implementation Issue resulting from Statement 123(R) are nonsubstantive.

#### **Implementation Issue G1**

7. Mr. Belcher stated that Implementation Issue G1 provides guidance for hedging unrecognized non-vested stock appreciation rights (SARs). He stated that the guidance in this Implementation Issue has been revised to incorporate changes in the underlying accounting for SARs required by Statement 123(R); under Statement 123(R), public companies are required to initially (and subsequently) measure vested SAR obligations at fair value rather than at their intrinsic value, as previously required by FASB Interpretation No. 28, *Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans*, which has been superceded by Statement 123(R). He stated that the revisions to this Implementation Issue also clarify that the Implementation Issue applies to public companies.
8. Mr. Herz asked the staff to clarify when an unvested SAR can qualify for hedge accounting. Mr. Belcher stated that an entity can designate an unvested SAR as a hedged item prior to the obligation related to the SAR being recognized by the entity. He added that an entity can enter into a cash flow hedge prior to the related obligation (that being, compensation cost) being recognized by the entity.
9. Mr. Belcher stated that the revised guidance in Implementation Issue G1 will continue to allow entities to enter into cash flow hedges of the exposure to variability in expected future cash flows associated with unrecognized, nonvested SAR obligations. He stated that if an entity decides to hedge an unrecognized, nonvested SAR after the effective date of Statement 123(R), and the entity had previously measured effectiveness based on the changes in the intrinsic value of the purchased option, the entity would most likely have to dedesignate the previous hedge and designate a new hedging relationship at the time the revised guidance in Implementation Issue G1 is effective. In the new hedging relationship, hedge effectiveness would typically be assessed based on changes in the entire fair value of the purchased option (time value and intrinsic value). Mr. Wilkins stated that paragraphs 31–33 of Statement 133 already provide guidance on how to reclassify any amounts held in other comprehensive income related to the dedesignated hedge. Mr. Belcher stated that the staff would further discuss and decide whether to include any specific transition guidance in the revised Implementation Issue.

(The staff subsequently decided not to propose any specific transition guidance for that revised Implementation Issue.)

**Effective Date and Transition**

10. Mr. Belcher stated that the effective date of the revised guidance in Implementation Issues No. C3 and No. G1 is consistent with the effective date of Statement 123(R). The staff has not provided transition guidance directly in the proposed revised Implementation Issues, as it believes the transition guidance in Statement 123(R) should be followed.

11. Mr. Belcher asked the Board whether it would object to posting the proposed revised Implementation Issues on the FASB website as cleared guidance. (Consistent with revisions related to new pronouncements, the proposed revised Implementation Issues are not posted as tentative conclusions for public comment).

12. No Board members objected to the staff's posting of proposed revised Implementation Issues No. C3, No. E19, and No. G1 on the FASB website as cleared guidance.

Follow-up Items:

13. The objective of the meeting was met.

General Announcements:

14. None.