MINUTES

Financial Accounting Standards Board

To:	Board Members		
From:	Prince (x229)		
Subject:	Minutes of the March 26, 2008 Board Meeting – FSP SOP 94-3-a and AAG HCO-a	**Date:**	April 7, 2008
cc:	Golden, Bielstein, MacDonald, Leisenring, Mechanick, Moritz, Hoey, Crowhurst, Posta, Bossio, Chookaszian, Gabriele, Klimek, Allen, FASB Intranet, GASB		

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, Interpretation, or FSP.

Topic:	FSP SOP 94-3-a and AAG HCO-a, *Omnibus Changes to Consolidation and Equity Method Guidance for Not-for-Profit Organizations*
Basis for Discussion:	Memorandum 2 dated March 4, 2008 and Memorandum 2a dated March 20, 2008
Length of Discussion:	10:00 a.m. to 10:40a.m.

Attendance:

Board members present:	Herz, Crooch, Linsmeier, Seidman, Smith, and Young (by phone)
Board members absent:	Batavick (voted by proxy)
Staff in charge of topic:	Mechanick
Other staff at Board table:	Cosper, Golden, and Prince
Outside participants:	None

Summary of Decisions Reached:

The Board discussed comments received on proposed FSP SOP 94-3-a and AAG HCO-a, *Omnibus Changes to Consolidation and Equity Method Guidance for Not-for-Profit Organizations*, and made the following decisions:

1. The Board reaffirmed that the scope of this project is to address conflicts or areas of uncertainty in the existing authoritative accounting literature concerning the consolidation and equity method guidance for not-for-profit organizations in conjunction with the codification, not to comprehensively revisit or rewrite the guidance for accounting and reporting of interests in other entities by not-for-profit organizations.
2. The Board will not expand the scope of the FSP to eliminate the optionality of consolidation when control over another not-for-profit organization exists by means other than majority voting interest in the board of that organization, such as by contract or affiliation agreement.
3. The Board will not expand the scope of this project to consider consolidation principles for not-for-profit organizations when the usual characteristics of a controlling financial interest are absent.
4. The FSP will require not-for-profit organizations to follow the consensus reached in EITF Issue No. 90-15, "Impact of Nonsubstantive Lessors, Residual Value Guarantees, and Other Provisions in Leasing Transactions." The FSP will remain silent on whether not-for-profit organizations should apply the SEC staff views expressed in Issue 90-15 (Questions 1-9) and EITF Topic No. D-14, "Transactions involving Special-Purpose Entities." (The Codification will not include Questions 1-9 or Topic D-14.) However, the FSP will include language from Topic D-14 that, in order for a lessee not to be required to consolidate a special-purpose entity lessor, the majority owner(s) of record of the lessor must be an independent third party.
5. The FSP will not provide an exception or substitute alternative disclosure requirements for the disclosure requirements in paragraph 20 of APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*, for

equity method investees that are not aligned with the operations or mission of the not-for-profit organization.

6. The FSP will remain silent on the applicability of the guidance in EITF Topic D-46, "Accounting for Limited Partnership Investments" (which constitutes SEC staff views) for not-for-profit organizations.
7. The scope of AICPA Statement of Position 78-9, *Accounting for Investments in Real Estate Ventures*, should not be expanded to include non-real-estate partnership interests held by for-profit health care providers and other business entities.
8. The FSP will require a cumulative change adjustment when an organization must change its accounting to comply with the provisions of the FSP, for its relationships, arrangements, or interests in existence as of the effective date of the FSP. (The proposed FSP would have generally required retrospective application of its provisions.)
9. The Board agreed to extend to not-for-profit organizations a one-time opportunity to elect fair value for partnership and similar interests that are financial instruments and that exist as of the effective date of the FSP if the provisions of the FSP would require those interests to be accounted for under the equity method of accounting for the first time and if the organization's deadline for electing the fair value option under FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, has already passed.

The Board directed the staff to proceed to a draft of a final FSP for vote by written ballot.

Objective of Meeting:

The objective of this meeting was for the Board to make decisions on several issues that were highlighted in respondents' comment letters on proposed FSP 94-3-a and AAG HCO-a. The objective was met.

Matters Discussed and Decisions Reached:

1. Mr. Mechanick began the meeting by stating that the project to issue this FSP stemmed from the identification of a few issues flagged as conflicts or areas of uncertainty in the literature during the authoring of the Codification. The issues were: (1) whether the temporary control exception to consolidation should still exist for certain relationships between not-for-profit organizations; (2) whether a few EITF Issues that were largely or entirely superseded for business enterprises and which addressed consolidation of certain SPEs used for leasing transactions, were still applicable to not-for-profit organizations; and (3) whether not-for-profit organizations should use the equity method of accounting for most noncontrolling interests in partnerships, LLCs, and similar unincorporated entities that they would otherwise report at cost rather than at fair value. This was a project to resolve these issues and not a project to comprehensively revisit the accounting and reporting of interests in other entities by not-for-profit organizations. Nor was it a project to comprehensively rewrite AICPA Statement of Position (SOP) 94-3, *Reporting of Related Entities by Not-for-Profit Organizations,* and chapter 11 of the AICPA Audit and Accounting Guide, *Health Care Organizations*. The one minor exception to this was that the staff did take the opportunity to look at a couple of matters that had been raised by AcSEC in their comment letter of the Not-for-Profit Mergers & Acquisitions project. Dealing with one of these matters, indeed, was helpful in making the elimination of the temporary control exception operational.
2. Mr. Mechanick noted that there were only eight comment letters received, all of which generally supported the issuance of the FSP. Three of those letters supported issuance of the FSP as is, while the other five had some suggestions for improvement. The staff is bringing forward to the Board those issues that they believe require the Board's consideration.

ISSUE #1 - OPTIONALITY OF CONSOLIDATION FOR CERTAIN TYPES OF CONTROL

Issue 1 Staff Recommendation

3. The staff recommended that the Board not eliminate the optionality of consolidation when control over another not-for-profit entity exists by means other than majority voting interest in the board of that entity, such as by contract or affiliation agreement.

Issue 1 Board Vote

4. The Board unanimously agreed with the staff's recommendation.

Issue 1 Board Comments

5. Mr. Herz stated that he agreed with the staff's recommendations, even though he has reservations about leaving the optionality in the guidance. He noted, however, that addressing his reservation was not part of the scope of this project. Ms. Seidman noted that from reading comment letters received for the Not-for-Profit Mergers & Acquisitions project, she does not have the impression that addressing the optionality issue is something the Board needs to do at this time. Mr. Mechanick stated that the optionality issue may be a possible consideration for part of a future longer-term comprehensive project on not-for-profit consolidation guidance, but not one for this limited-scope FSP. The remainder of the Board expressed their agreement with the staff's recommendation.

ISSUE #2 - COMPREHENSIVE LOOK AT CONSOLIDATIOHN PRINCIPLES WHEN THE USUAL CHARACTERISTICS OF A CONTROLLING FINANCIAL INTEREST ARE NOT PRESENT

Issue 2 Staff Recommendation

6. The staff recommended that the Board not add a project to its agenda to consider the consolidation principles for a not-for-profit organization when the usual characteristics of a controlling financial interest are absent.

Issue 2 Board Vote

7. The Board unanimously agreed with the staff's recommendation.

Issue 2 Board Comments

8. The Board expressed their agreement with the staff's recommendation.

ISSUE #3 - APPLICABILITY OF EITF TOPIC D-14

Issue 3 Staff Recommendation

9. The staff recommended that the FSP include guidance from Topic D-14 about the majority owner of record being an independent third party (in order to avoid a required consolidation). The staff also recommended that the FSP suggest that not-for-profit entities may wish to consider the SEC views in Issue 90-15 and Topic D-14, but are not required to follow them.

Issue 3 Board Vote

10. The Board concluded that the FSP will require not-for-profit organizations to follow the consensus reached in Issue 90-15. The FSP will remain silent on whether not-for-profit organizations should apply the SEC staff views expressed in Issue 90-15 (Questions 1-9) and Topic D-14, "Transactions involving Special-Purpose Entities." (The Codification will not include Questions 1-9 or Topic D-14.) However, the FSP will include language from Topic D-14 that, in order for a lessee not to be required to consolidate an SPE lessor, the majority owner(s) of record of the lessor must be an independent third party.

Issue 3 Board Comments

11. Mr. Smith stated that he did not like the language "may wish to consider those views" that is included in an updated draft of paragraph 13 of the FSP to reference the SEC staff views within Issue 90-15 and Topic D-14. He questioned what would happen if not-for-profit organizations did not wish to consider those views and chose not to consider them. Mr. Smith stated that he was not sure what the status of GAAP would be in that situation. Mr. Golden clarified that what the staff is trying to convey is that not-for-profit organizations that are not SEC registrants do not have to apply the SEC staff views embedded within Issue 90-15.
12. Mr. Golden stated that he does not want not-for-profit organizations to believe that they must consider the SEC staff views embedded within Issue 90-15. He further stated that he believes the first question the Board needs to consider is whether the Board wants to require that nonpublic, not-for-profit organizations consider the SEC staff views within Issue 90-15. If the answer to the first question is no, the Board then needs to decide how they want to inform constituents of that decision.
13. Mr. Smith stated that he does not believe the Board should be promulgating SEC guidance for not-for-profit organizations. He stated that he would prefer that the FSP be silent on whether not-for-profit organizations should consider the SEC staff views rather than stating that not-for-profit organizations may wish to consider those views. Mr. Herz agreed with Mr. Smith's recommendation. Mr. Golden stated that what causes confusion is that the SEC views are not only within Topic D-14 but also in the questions and answers embedded within Issue 90-15; therefore, not-for-profit

organizations may believe that they have to consider those views. Mr. Crooch stated that he would have the FSP state that not-for-profit organizations do not have to follow the SEC guidance.

14. Mr. Golden expressed concern that, prior to the codification becoming effective, auditors may review Issue 90-15, see that the SEC views are within the Issue, and require their not-for-profit clients to follow those views. Mr. Linsmeier asked what the status of the nine questions containing SEC views in Issue 90-15 would be in the codification. He stated that he believed those questions would be excluded from Issue 90-15 in the codification. Mr. Mechanick stated that he believed Issue 90-15 would go into the codification but that the nine questions could be left out. Mr. Herz and Mr. Linsmeier noted that is what they would prefer to do. Mr. Smith reminded those present that deciding what will go into the codification is the main purpose of this project. Mr. Smith stated that, prior to codification, the FSP can articulate what parts of Issue 90-15 are applicable to not-for-profit organizations. Ms. Seidman agreed. Mr. Linsmeier stated that if the questions were left out, then the issue regarding referencing Topic D-14 would also be taken care of.
15. Mr. Herz stated that what the Board wants to do is to have the FSP state that the applicable literature for not-for-profit organizations is the consensus reached in Issue 90-15, not including the questions containing SEC views. However, both Mr. Herz and Mr. Golden noted that not-for-profit organizations could always analogize to the questions.
16. Mr. Mechanick asked the Board whether they believe non-leasing SPEs could analogize to the basic principles of the consensus of Issue 90-15. Ms. Seidman stated that she believes they could, but that the FSP should remain silent on that issue.

ISSUE #4 – DISCLOSURE REQUIREMENTS OF APB 18
Issue 4 Staff Recommendation

17. The staff recommended that the Board not make an exception to or substitute alternative disclosure requirements for the disclosure requirements in paragraph 20 of Opinion 18 for equity method investees that are not aligned with the operations or mission of the not-for-profit organization.

Issue 4 Board Vote

18. The Board unanimously agreed with the staff's recommendation.

Issue 4 Board Comments

19. Mr. Herz asked the Board whether anyone disagreed with the staff's recommendation. None of the Board members disagreed.

ISSUE #5 - APPLICABILITY OF EITF TOPIC D-46

Issue 5 Staff Recommendation

20. The staff recommended that the FSP mention, but not mandate, the guidance contained in Topic D-46, which contains SEC staff views. If the Board were to mandate that guidance, there would be ramifications for not only not-for-profit organizations but also nonpublic business entities.

Issue 5 Board Vote

21. The Board unanimously agreed that the FSP should be silent on whether not-for-profit organizations should apply the guidance in Topic D-46.

Issue 5 Board Comments

22. Mr. Mechanick asked the Board whether they wanted to remain silent on whether not-for-profit organizations should apply the guidance in Topic D-46, similar to their decision in Issue #3. The Board responded that they do want to be silent.

ISSUE #6 – EXPANSION OF SCOPE TO BUSINESS ENTERPRISES

Issue 6 Staff Recommendation

23. The staff recommended that the Board not expand the scope of SOP 78-9 to include investments in partnerships outside the real estate industry that are held by any reporting entity, except those interests carried at fair value in accordance with GAAP.

Issue 6 Board Vote

24. The Board unanimously agreed with the staff's recommendation.

Issue 6 Board Comments

25. The Board expressed their agreement with the staff's recommendation.

ISSUES #7 and 8 – RESTROSPECTIVE APPLICATION AND EARLY ADOPTION

Issues 7 and 8 Staff Recommendation

26. The staff recommended the following with regard to transition provisions of the FSP:

    a. Prospective application, with a cumulative catch-up adjustment, for all relationships, arrangements and interests in existence as of the effective date of the FSP

    b. General prohibition against retrospective application, but with an exception for a particular provision in the FSP if an organization is already following that provision

    c. Silence on the issue of early adoption.

27. The staff further recommended that the Board consider allowing organizations a one-time opportunity to elect fair value for partnership and similar interests that are financial instruments and that exist as of the effective date of the FSP if the provisions of the FSP require those interests to be accounted for under the equity method of accounting for the first time and if the organization's deadline for electing the fair value option under Statement 159 has already passed.

Issues 7 and 8 Board Vote

28. The Board unanimously concluded that the FSP will require a cumulative change adjustment when an organization must change its accounting to comply with the provisions of the FSP, for its relationships, arrangements, or interests in existence as of the effective date of the FSP.

29. The Board voted 5-2 (Linsmeier and Young dissenting) to extend to not-for-profit organizations a one-time opportunity to elect fair value for partnership and similar interests that are financial instruments and that exist as of the effective date of the FSP if the provisions of the FSP would require those interests to be accounted for under the equity method of accounting for the first time and if the organization's deadline for electing the fair value option under Statement 159 has already passed.

Issues 7 and 8 Board Comments

30. Ms. Seidman noted that the Board decided at this meeting to remain silent on the applicability of Topic D-46; therefore, if entities choose to analogize to Topic D-46 for interests beyond real estate investments, they would account for that change (a change to a preferable method) using the guidance in FASB Statement No. 154, Accounting Changes and Error Corrections. Mr. Smith stated that he agreed with the

language used by the staff in the proposed FSP. Mr. Linsmeier stated that the transition guidance still could benefit from simplification. He noted that the guidance seems to be saying prospective application; if entities are already applying a provision of the FSP they can continue to do so; otherwise, entities are not allowed to early apply the provisions of the FSP. He also noted that is how he would have the FSP state the transition guidance.

31. Mr. Golden stated that he did not think the FSP should have a prohibition on retrospective application. Mr. Golden recommended that the FSP state that if, as a result of the clarification provided by the FSP, a company has a change in accounting, the company should account for the change with a cumulative change adjustment. Mr. Golden further noted that he would be silent on everything else. Ms. Seidman agreed with Mr. Golden's recommendation because, if the Board hopes that constituents do analogize to some of the guidance, she doesn't want to cause questions about a potential conflict in the wording.

32. Mr. Golden noted that there will be diversity in practice with regard to not-for-profit organizations choosing to analogize to Topic D-46. If organizations choose to analogize, they will account for any change using guidance from Statement 154.

33. Ms. Seidman stated that she would be in favor of extending a one-time fair value election because constituents would not have known of the potential changes this FSP might cause when they originally had the opportunity to elect fair value under Statement 159. Mr. Linsmeier asked whether entities who were accounting for investments under the equity method of accounting prior to the release of the FSP would also have the opportunity to elect fair value, or if the election was solely for those entities that had investments coming under the equity method of accounting due to the provisions of the FSP. The staff clarified that the election would be for those investments coming under the equity method of accounting for the first time.

34. Ms. Seidman asked the staff whether the not-for-profit community was aware of the fair value option. Mr. Mechanick answered in the affirmative; he noted that the problem was that many not-for-profit organizations were accounting for their investments at cost and, therefore, possibly would not have had incentive to elect the fair value option.

Other Matters Discussed

35. The Board granted the staff permission to proceed to a ballot draft of a final FSP for vote by written ballot.

Follow-Up Items:

None.

General Announcements:

None.