MINUTES

Financial Accounting Standards Board

To:	Board Members		
From:	Choi (x446)		
Subject:	April 30, 2008 Minutes (Project Plan—Not-for-Profit Mergers and Acquisitions)	**Date:**	May 16, 2008
cc:	FASB: Bielstein, Golden, MacDonald, Cosper, Mechanick, Choi, Vessels, Tully, Glotzer, Lott, C. Smith, Lapolla, Gabriele, and consultants (Willis, Budak) FASB Intranet, Chookaszian, Posta, Klimek, Allen; GASB: Reese, Schermann; IASB: Leisenring; AASB: Batsakis		

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:	Project Plan
Basis for Discussion:	Memorandum #6 dated April 9, 2008
Length of Discussion:	11:30–11:55 a.m.

Attendance:

Board members present:	Herz, Batavick, Linsmeier, Seidman, Smith, and Young
Board members absent:	Crooch
Staff in charge of topic:	Bossio
Other staff at Board table:	Bielstein, Mechanick, Choi, Willis (phone)
Outside participants:	None

Summary of Decisions Reached:

The Board approved an updated plan for its redeliberations and completion of the project by the end of 2008. As part of that plan, the Board agreed to:

1. Continue with the existing plan of limiting the Board's substantive redeliberations to significant issues for which new information has arisen. Those issues include (a) differing accounting methods for mergers and acquisitions, (b) donor-related intangible assets (for example, donor lists and relationships), (c) initial recognition of goodwill or a contribution received, and (d) subsequent impairment testing of goodwill.
2. Adhere to the scope and not address requests for more guidance or concerns about other GAAP that are outside the scope of the project, such as a request that the Board address perceived deficiencies in consolidation guidance applicable to not-for-profit organizations.
3. Continue to adhere to the difference-based approach and affirmed that the Statement 141(R) post-Exposure Draft changes are to apply to acquisitions by not-for-profit organizations.
4. Redirect the staff to conduct additional constituent outreach to solicit additional information about the workability of the "ceding control" notion for purposes of distinguishing a merger from an acquisition or other transactions outside the scope of the merger and acquisition proposal. The Board also agreed to utilize more efficient means for gathering that information rather than issuing a limited-scope revised Exposure Draft.

Objective of Meeting:

The purpose of this meeting is for the Board to discuss and approve a project plan and steps for completing this project. Those steps include redeliberations that are expected to focus on the significant concerns raised by respondents to the following October 2006 Exposure Drafts, which include the proposals for the recognition of donor-related intangible assets and for goodwill or contribution received in an acquisition, and the subsequent accounting for goodwill.

a. *Not-for-Profit Organizations: Mergers and Acquisitions* (NFP M&A Exposure Draft)
b. *Not-for-Profit Organizations: Goodwill and Other Intangible Assets Acquired in a Merger or Acquisition.*

The objective was met.

<u>Matters Discussed and Decisions Reached:</u>

1. Mr. Bossio provided background on decision reached at the Board's September 2007 meeting. At that meeting, the Board:

a. Affirmed that the acquisition method should be required for acquisitions by not-for-profit organizations
b. Tentatively decided that the carryover method of accounting should be retained for mergers between not-for-profit organizations and that the feature that distinguishes a merger from an acquisition is the governing bodies of two or more not-for-profit organizations ceding control of those organizations to create a new organization
c. Directed the staff to draft a limited revision of the NFP M&A Exposure Draft to distinguish between a merger and an acquisition by a not-for-profit organization
d. Considered but rejected suggestions that it also permit use of the carryover method of accounting for acquisitions by smaller not-for-profit organizations.

2. Mr. Bossio explained that as a result of lapsed time since the Board's last meeting and reassignments, the staff updated their thinking about how the project might best proceed with a goal of completion by December 31, 2008. The staff then asked the Board to discuss it proposed plan, including its identification of the remaining steps and issues for redeliberations, use of resources, and projected timeline, and either approve or modify that plan consistent with the Board's overall goals and priorities. The staff asked the following three questions:

Q1—Does the Board agree with the overall objective and goal of completing the project by the end of 2008?

Q2—Is that goal compatible (not conflict) with other goals, priorities, and available resources?

Q3—Does the Board agree with the project plan for completing the project, including its strategies, issues for redeliberations, steps, resources, and timetable?

3. To aid the discussion of those questions, Mr. Bossio asked the Board to begin by considering the appropriateness of specific proposals of its updated plan for achieving the goal of completing the Board's redeliberations and issuance of final Statements by the end of 2008. Those specifics are items (a)–(g) listed below.

Staff Recommendation

4. The staff recommended that the Board:

a. Continue with the existing plan of limiting the Board's substantive redeliberations to significant issues for which new information has arisen. Those issues include (1) differing accounting methods for mergers and acquisitions, (2) donor-related intangible assets (for example, donor lists and relationships), (3) initial recognition of goodwill or contribution received, and (4) subsequent impairment testing of goodwill.

b. Adhere to the scope and do not stray into requests for more guidance or concerns about other GAAP that are outside the scope of the project.

c. Rely on consolidation guidance and do not try to fix deficiencies in consolidation guidance through this project.

d. Adhere to the difference-based approach and affirm that the Statement 141(R) post-Exposure Draft changes are to apply to not-for-profit organizations acquisitions.

e. Solicit additional information about the workability of the "ceding control" notion. However, rather than using a formal revised Exposure Draft the staff suggests other more efficient means be used, which could include:

    (1) A staff paper to invite further comments from all respondent to the Exposure Drafts

    (2) A web-based invitation to comment

    (3) Further discussions with resource group members

    (4) Field visits with preparers and auditors

    (5) If subsequently desired, a limited-scope revised Exposure Draft remains a possibility.

f. Utilize limited staff resources over the next six months for the Board's remaining redeliberations, constituent outreach, and an outside consultant for document drafting.

g. Assuming agreement with the above strategies, list of significant issues, steps to completion, commitment of resources, and the Board's priorities and ability to reach decisions, the proposed plan projects issuance of final Statements by the end of 2008, if not earlier.

Board Vote

5. The Board voted in favor of the staff's recommendation (6-1). (In favor: RHH, TJL, LFS, LWS, DMY, and GJB. Opposed: GMC) As a result of this decision, the Board answered affirmatively to the three questions posed in the audience handout. That is, the Board agreed (a) with the overall objective and goal of completing the project by the end of 2008; (b) that the goal is compatible (does not conflict) with other goals, priorities, and available resources; and (c) with the projected plan for completing the project. Mr. Herz noted that Mr. Crooch, who was not present at the meeting, advised him that he is opposed to the proposed plan.

Board Comments

6. Mr. Batavick questioned how the staff would go about soliciting feedback on the definition of a merger (item (e)). Mr. Bossio noted that the staff has moved away from its original recommendation that the Board issue a limited-scope revised Exposure Draft to discuss the workability of the ceding control notion as factor for identifying a merger. He noted that that recommendation was developed together with the staff's recommendation that the fresh-start method be required for mergers and that the significance of that change would require a limited exposure. However, the Board decided to retain the carryover method for mergers, which in effect would leave present practice in place for those transactions that qualify as mergers. He noted that that decision is similar to scoping certain transactions out of what was proposed by the Exposure Draft. Such a decision would not require a revised Exposure Draft.

7. Ms. Bielstein noted that an "invitation to comment" (as described in the meeting handout) still connoted a broad solicitation by the staff, rather than simply reaching out to the constituents that had provided comment letters on the Exposure Drafts. Ms. Bielstein asked the Board members whether they believe it would be necessary to conduct a broader solicitation on this matter if most of the substantive feedback was received by the respondents to the Exposure Drafts.

8. Mr. Bossio clarified that the staff document would merely be a request for additional comments. The document would be (a) sent directly to respondents to the

Exposure Drafts via email to encourage feedback and (b) posted to the FASB's website so that other constituents would have an opportunity to comment.

9. Ms. Seidman clarified that the reason the document would not be considered an Exposure Draft is that it would not be a complete articulation of a standard. She also noted that she believes the ideas being developed in this project (that is, the ceding control notion) are more pervasive than in just the not-for-profit arena. Therefore, she argued against an insular exposure in favor of a broader, web-based solicitation.

10. Mr. Herz also noted that, based on the Board's previous deliberations on this topic, he believes that the acquisition method is inappropriate for these types of not-for-profit combinations. Therefore, if the Board learned that the ceding control notion was not operational, he would be in favor of the Board codifying the guidance in APB Opinion No. 16, *Business Combinations*—currently incorporated into the AICPA Audit and Accounting Guide, *Not-for-Profit Organizations,* and the AICPA Audit and Accounting Guide, *Health Care Organizations*—rather than defaulting to using the acquisition method for all mergers and acquisitions.

11. Mr. Bossio also noted that this solicitation would be more efficient and would not require the time and Board resources necessary for a formal preballot and ballot process. He added, however, that the staff welcomed volunteers to review the Request for Additional Comments. Ms. Seidman and Messrs. Smith and Linsmeier volunteered to review that document.

Follow-up Items:

None.

General Announcements:

None.