

MINUTES



To: Board Members
From: Murphy (ext. 208)
Subject: Minutes of the February 2, 2005 Board Meeting **Date:** February 8, 2005
cc: Bielstein, Smith, Petrone, Leisenring, Swift, Polley, Thompson, Getz, Gabriele, Sutay, Project Team (Westerlund, Murphy, Vernuccio), Golden, FASB Intranet

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: Agenda Decision: Property, Plant, and Equipment

Basis for Discussion: Memorandum dated January 24, 2005

Length of Discussion: 10:20 a.m. to 10:55 a.m.

Attendance:

Board members present: Herz, Crooch, Schipper, Seidman, Trott, and Young

Board members absent: Batavick

Staff in charge of topic: Westerlund

Other staff at Board table: Smith and Murphy

Outside participants: Leisenring

Summary of Decisions Reached:

The Board directed the staff to further research the accounting for planned major maintenance activities of property, plant, and equipment with the objective of refining the potential scope of the project. Based on this research, the Board will consider whether to add a project on planned major maintenance activities to its agenda at a future meeting. The Board decided not to add projects to its agenda to address (1) the accounting for rental costs that are incurred during construction of a real estate project, (2) liquidated damages received during the acquisition of PP&E, and (3) the threshold for beginning to capitalize PP&E.

Objective of Meeting:

The purpose of the meeting was for the Board to consider whether to add a project(s) to its agenda based on AcSEC's recommendations that the Board issue certain stand alone, near-term guidance on the accounting for property, plant, and equipment. Specifically, the Board considered the following topics:

- (1) Accounting for planned major maintenance activities
- (2) Accounting for rental costs that are incurred during construction of a real estate project
- (3) Accounting for liquidated damages received during the acquisition of PP&E
- (4) The threshold for beginning to capitalize PP&E.

Matters Discussed and Decisions Reached:

1. Mr. Westerlund stated that in a 2004 letter, AcSEC recommended that the Board consider issuing stand alone, near-term guidance on four PP&E issues: (1) accounting for planned major maintenance activities, (2) accounting for rental costs that are incurred during construction, (3) accounting for liquidated damages, and (4) the threshold for beginning to capitalize PP&E. The Board was asked to consider each of these topics individually.

Planned major maintenance activities

2. AcSEC recommended that the accounting for PMMA be considered in connection with their ongoing project to revise the Airline Guide. The Airline Guide currently permits four alternative methods of accounting for PMMA: (1) the Direct Expensing Method, (2) the Built-in Overhaul Method, (3) the Deferral Method, and (4) the Accrual Method. These methods also are widely used in other industries. AcSEC believes that these alternatives should be narrowed for all entities and accordingly, they recommend that the Board issue an FSP that would apply to all industries.

3. Mr. Trott stated that the Board should add a research effort (not a project) for planned major maintenance activities. He said it is important for the staff to define planned major maintenance activities so that any potential project on that issue is restricted to that specific definition and does not spill over into other related issues such as depreciation. He also noted that a potential project on planned major maintenance activities would provide the opportunity for convergence with the IASB.
4. Mr. Smith reminded the Board that the SEC had specifically requested that PMMA be addressed in AcSEC's project, which the Board previously terminated. He also stated that the SEC staff indicated that they would consider providing guidance in the absence of additional guidance from the FASB.
5. Ms. Seidman agreed with Mr. Trott's concern that the scope of this potential project could expand into a larger project. Ms. Seidman also asked the staff to consider whether the project should specifically address the SEC staff's concern (for example, eliminate the accrual method without reconsideration of the other methods.)
6. Mr. Crooch stated that if the Board added this project to its agenda it would be important to converge with the IASB. He also agreed with other Board members that this project could expand beyond PMMA if it is not properly scoped.
7. Mr. Smith summarized that the Board is directing the staff to research the accounting for planned major maintenance activities of PP&E with the objective of refining the potential scope of the project. Based on this research, the Board will consider whether to add a project on planned major maintenance activities to its agenda at a future meeting. No Board members objected to the proposed course of action.

Rental costs during construction

8. Mr. Westerlund stated this proposed issue would provide guidance on the accounting for rental costs that are incurred during the period in which an entity is preparing a real estate project for its intended use. That is, whether those rental costs should be capitalized as part of the real estate project or expensed as incurred. The FASB staff recommended that this project not be added to the Board's agenda.
9. Mr. Herz asked the Board if any of the members objected to not adding a project that would provide guidance on the accounting for rental costs that are incurred during construction of a real estate project. None of the Board members objected.

Liquidated damages

10. Mr. Westerlund stated this proposed issue would provide guidance on the accounting for liquidated damages that are received during the acquisition of

property, plant, or equipment. That is, whether the liquidated damages should be recognized as a reduction in the costs of an asset or recognized directly into income. The FASB staff recommended that this project not be added to the Board's agenda.

11. Mr. Herz asked the Board if any of the members objected to not adding a project that would provide guidance on the accounting for liquidated damages received during the acquisition of PP&E. None of the Board members objected.

Threshold for beginning capitalization of PP&E costs

12. Mr. Westerlund stated this proposed issue would provide guidance on when an entity should begin to capitalize costs of PP&E—that is, a threshold for capitalization. The staff recommended that this project not be added to the Board's agenda.

13. Ms. Schipper observed that eventually the Board needs to revisit the issue of expenditures made in contemplation of obtaining control of productive capacity, not only in regards to physical items like those involved in the threshold for beginning to capitalize PP&E, but also in regards to internally developed intangible capacity. She stated that the issue is whether expenditures made in contemplation of getting control of productive capacity belong on the balance sheet or income statement.

14. Mr. Herz asked the Board if any of the members objected to not adding a project that would provide guidance on the threshold for beginning capitalization of PP&E costs. None of the Board members objected.

Follow-up Items: None

General Announcements: None