

MINUTES



To: Board Members

From: Van Beek (ext. 447)

Subject: Minutes of the September 27, 2006 Board Meeting—FSP FAS 123(R)-5, **Date:** October 2, 2006
“Amendment of FSP FAS 123(R)-1”

cc: Bielstein, Smith, MacDonald, Leisenring, Polley, Gabriele, Carney, Golden, Cassel, Sarno, Zeyher, Van Beek, Sledge, Vernuccio, Allen, Sutay, 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: Proposed FASB Staff Position FAS 123(R)-5,
“Amendment of FSP FAS 123(R)-1”

Basis for Discussion: Memorandum 2 dated September 18, 2006

Length of Discussion: 11:20 a.m. to 11:30 a.m.

Attendance:

Board members present: Herz, Batavick, Crooch (by phone), Linsmeier, Seidman, Trott, Young, and Leisenring (IASB)

Board members absent: None

Staff in charge of topic: Sarno

Other staff at Board table: Golden, L. Smith, and Van Beek

Outside participants: None

Summary of Decisions Reached

The Board decided to approve as final FASB Staff Position (FSP) FAS 123(R)-5, "Amendment of FASB Staff Position FAS 123(R)-1," for posting to the FASB website. The FSP will clarify the classification guidance in FSP FAS 123(R)-1, "Classification and Measurement of Freestanding Financial Instruments Originally Issued in Exchange for Employee Services under FASB Statement No. 123(R)." The Board directed the staff to proceed to draft a final FSP for vote by written ballot.

Objective of Meeting

The objectives of this meeting were for the Board to (a) consider comments received from respondents during the exposure period and (b) approve as final FSP FAS 123(R)-5 for posting to the FASB website. The objectives of the meeting were met.

Matters Discussed and Decisions Reached

Increase in Value

1. Mr. Sarno stated that the first issue regarding the Exposure Draft that was raised by respondents was the concept of no increase in value to the holders of the instrument. The TA&I Committee (the Committee) agreed with the staff's recommendation that the intent of "no increase in value to the holders of the instrument" in paragraph 4(a) of the proposed FSP was meant to include instances in which the holder of the award is being made "whole." As a result, the Committee agreed with the staff and recommended to the Board the staff's suggested change to the wording of paragraph 4(a), in which part of the requirement would state:

There is no increase in fair value of the award (or the ratio of intrinsic value to the exercise price of the award is preserved, that is, the holder is made whole).

All Board members agreed with the Committee's recommendation.

All Holders of the Same Class Are Treated in the Same Manner

2. Mr. Sarno stated the second issue regarding the Exposure Draft that was raised by respondents was the concept that all award holders of the same class are treated in the same manner. The Committee agreed with the staff's recommendation that the condition

that all award holders of the same class are treated in the same manner is necessary; therefore, there is no reason to subject the award to other applicable GAAP. Absent all award holders of the same class being treated the same, the Committee agreed that the awards of that class should then become subject to other applicable GAAP. As a result, based on the Committee's recommendation, no suggested wording changes were made to paragraph 4(b) of the proposed FSP. All Board members agreed with the Committee's recommendation.

References to Business Combinations

3. Mr. Sarno stated the staff removed the references to business combinations since the staff believes exchanges of awards in connection with a business combination fall within the scope of FSP FAS 123(R)-1, based on the wording in footnote 1 of that FSP. The Committee agreed that business combinations were covered under footnote 1 of FSP FAS 123(R)-1 and ,therefore, agreed with the staff's suggestion to remove the references to business combinations in the final FSP. All Board members agreed with the staff's recommendation.

Drafting a Final FSP

4. There were no further comments by the Board. The Board directed the staff to proceed to draft a final FSP for vote by written ballot.

Follow-up Items:

5. The staff will draft a final FSP for vote by written ballot.

General Announcements:

6. None.