

MINUTES



To: Board Members
From: Hansen (ext. 298)
Subject: Minutes of March 30, 2005 Board Meeting—GAAP Hierarchy: Reconsideration of Board Decision Based on External Review Comments **Date:** April 5, 2005
cc: Smith, Bielstein, Petrone, Golden, McBride, Gabriele, Leisenring, Getz, Polley, Sutay, Mahoney, Jim Paul (IASB), 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: GAAP Hierarchy: Reconsideration of Board Decision Based on External Review Comments

Basis for Discussion: Board Memorandum dated March 24, 2005

Length of Discussion: 10:10 a.m. to 10:30 a.m.

Attendance:

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

Board members absent: None

Staff in charge of topic: McBride

Other staff at Board table: Smith, Golden, and Hansen

Outside participants: None

Summary of Decisions Reached:

The Board decided that the proposed FASB Statement, *The Hierarchy of Generally Accepted Accounting Principles*, should provide the types of documents that make up the sources of category (a) through (d) accounting principles as set forth in paragraph .10 of AICPA Statement on Auditing Accounting Standards No. 69, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles in the Independent Auditor's Report*.

The Board also decided that FASB Staff Positions and Statement 133 Implementation Issues issued by the Derivatives Implementation Group should be sources of category (a) accounting principles.

Objective of Meeting:

The objective of the meeting was to ask the Board to reconsider whether the proposed Statement should provide the characteristics of the sources of accounting principles set forth in paragraph .05 of SAS 69, or the types of documents that make up the sources of accounting principles set forth in paragraph .10 of SAS 69. The objective of the meeting was met.

Matters Discussed and Decisions Reached:

1. Mr. McBride began by stating that at its November 24, 2004 meeting, the Board directed the staff to prepare an Exposure Draft of the proposed Statement on the GAAP hierarchy. At that meeting, the Board decided that the characteristics presented in paragraph .05 of SAS 69 would be presented in the proposed Statement, and the types of documents that meet those characteristics that are presented in paragraph .10 of SAS 69 would not be presented in the proposed Statement. He reported that all external reviewers recommended that the types of documents that meet the characteristics of the sources of accounting principles should form the body of the proposed Statement.

2. Mr. McBride noted that the reasons for the recommendations varied, but included the following: (a) many enterprises may not be familiar with the process used to issue accounting principles and, therefore, may not appropriately categorize accounting principles, (b) presenting the types of documents, and not the characteristics, is consistent with the Board's goal of simplification, and (c) it is unclear whether certain types of documents, such as EITF consensuses, that have followed multiple processes over the years should be categorized according to the process used to issue each individual document or categorized according to the predominant process used to issue most documents.
3. Mr. McBride stated that item (c) raised a concern about presenting both the characteristics of the sources of accounting principles and the types of documents that meet those characteristics in the body of the proposed Statement. He said that because the characteristics and types of documents that meet those characteristics are not consistent in all cases, those characteristics and types of documents cannot be included in the proposed Statement. He added that the staff recommended that the proposed Statement provide the sources of accounting principles categorized according to document type as presented in paragraph .10 of SAS 69. He also recommended that the Board carry forward the categorization of the document types that are presented in paragraph .10 of SAS 69 without reconsideration.
4. The Board unanimously agreed with the staff's recommendation. Mr. Crooch noted that the Board's previous decision to provide the categories of accounting principles according to characteristics, as presented in paragraph .05 of SAS 69, was based on its initiative to provide principles-based standards. Mr. Herz noted that categorizing the sources of accounting principles by document type creates a maintenance responsibility when a new document type is created.

5. Mr. McBride asked the Board to consider the appropriate ranking of FASB Staff Positions (FSPs) and Statement 133 Implementation Issues (DIG Issues), which are not addressed in paragraph .10 of SAS 69. He stated that because the Board decided to provide the sources of accounting principles categorized according to document type, the Board needed to consider the appropriate category or categories to classify the FSPs and DIG Issues. He reported that FSPs and DIG Issues—in some cases—interpret or amend category (a) accounting principles and should be designated as a source of category (a) accounting principles. On the other hand, FSPs and DIG Issues have been subjected to varying degrees of due process, the most extensive of which is (a) deliberation by the Board or its designee in a public forum, (b) exposure for public comment, and (c) clearance by the Board. Mr. McBride presented three options to classifying FSPs and DIG Issues.
 - a. Specifically identify those FSPs and DIG Issues that interpret or amend a category (a) accounting principle and designate those documents as category (a).
 - b. Classify FSPs and DIG Issues under a category other than category (a) since all three elements of due process were not followed in all cases.
 - c. Designate all FSPs and DIG Issues as category (a).
6. Mr. McBride stated that the staff recommends designating all FSPs and DIG Issues as category (a) because it believes this option is the most consistent with the staff's intention that FSPs and DIG Issues be applied as if they were a source of category (a). He stated that the staff also observes that all FSPs and DIG Issues have been publicly exposed and cleared by the Board and are readily available for FASB constituents.
7. The Board unanimously agreed with the staff's recommendation. Ms. Seidman noted that in several DIG Issues there is language that states:

The above response has been authored by the FASB staff and represents the staff's views, although the Board has discussed the above response at a public meeting and chosen not to object to dissemination of

that response. Official positions of the FASB are determined only after extensive due process and deliberation.

Ms. Seidman stated that although there are no practical effects of designating all DIG Issues as category (a), it is clearly a change in the way this guidance has been viewed in the past because the Issues without that disclosure have been viewed as staff implementation guidance. She stated that it seemed contradictory that all DIG Issues would now be designated as category (a).

8. Mr. Smith reported that at least one staff member had previously proposed doing away with the above mentioned phrase.
9. Mr. Golden stated that the staff thinks that it would be easier for constituents to have all FSPs or DIG Issues fall within the same category, rather than have only certain of those documents fall in category (a).
10. Mr. McBride reported that an Exposure Draft should be issued by the end of April with a 60-day comment period.

Follow-up Items:

None.

General Announcements:

None.