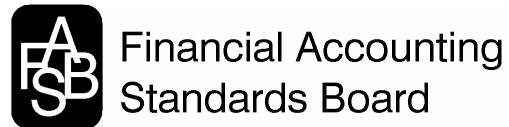


**MINUTES**



**To:** Board Members  
**From:** Ryan Bergstrom (ext. 296)  
**Subject:** Minutes of the August 24, 2005 Board Meeting (GAAP Hierarchy) **Date:** August 31, 2005  
**cc:** Smith, Bielstein, Petrone, Lott, Gabriele, Leisenring, Carney, Swift, Polley, Project Team, Mahoney, 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—Comment Letter Analysis

Basis for Discussion: Board memorandum dated August 11, 2005

Length of Discussion: 9:00 a.m. to 9:45 a.m.

Attendance:

Board members present:	Herz, Batavick, Crooch, Schipper, Seidman, Trott, and Young
Board members absent:	None
Staff in charge of topic:	Moss
Other staff at Board table:	L. Smith, Golden, and Bergstrom
Outside participants:	None

Summary of Decisions Reached:

The Board reconsidered certain aspects of the April 28, 2005 FASB Exposure Draft, *The Hierarchy of Generally Accepted Accounting Principles*. In response to comments raised by constituents, the Board reconsidered and subsequently affirmed its previous decisions on the following:

1. The language in footnote 1 related to the SEC literature should remain unchanged.
2. The Rule 203 exception should not be carried forward from AICPA Statement on Auditing Standards No. 69, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*.
3. EITF consensuses should remain in category (c) in the GAAP hierarchy.
4. FASB Staff Positions (FSPs), Statement 133 Implementation Issues, and Technical Bulletins should remain unchanged from the Exposure Draft.

Additionally, in response to comments raised by constituents, the Board decided on the following changes to the proposed Statement:

5. Paragraph 5 of the Exposure Draft should be amended as follows:

If the accounting treatment for a transaction or event is not specified by a pronouncement or practice described in categories (a)–(d), an enterprise shall first consider accounting principles for similar transactions or events within categories (a)–(d) and then other accounting literature.

6. AICPA *Industry Audit and Accounting Guides* that have not been cleared by the Board should be included in category (d) of the GAAP hierarchy.
7. The effective date will be consistent with the effective dates of the AICPA and PCAOB documents and will be determined by the staff when the final release date of the other documents is known.
8. In the rare instance that application of the final Statement results in a change in accounting, enterprises should account for this as a change in accounting principle

in accordance with FASB Statement No. 154, *Accounting Changes and Error Corrections*. Enterprises should clearly disclose the accounting principle that was used both before and after the application of the provisions of the final Statement. Additionally, enterprises should disclose the reason why applying the Statement resulted in a change in accounting principle.

The Board also agreed to several minor wording changes in the proposed Statement.

Objective of Meeting:

The objective of the meeting was for the Board to redeliberate issues raised in the comment letters and decide what, if any, changes should be made to the proposed Statement. The objective of the meeting was met.

Matters Discussed and Decisions Reached:

1. Mr. Moss opened the meeting by stating that the staff had identified nine significant issues that arose from the comment letters submitted in response to the Exposure Draft that would be brought back for the Board to reconsider. Mr. Moss introduced the first issue to be brought before the Board for reconsideration—SEC literature within the GAAP hierarchy. Mr. Moss stated that nine respondents commented on footnote 1 in the Exposure Draft. They believed that the SEC rules and interpretive releases should be specifically listed in category (a) in the GAAP hierarchy. Respondents also suggested that the current wording in footnote 1 is not clear with regards to whether Staff Accounting Bulletins are considered category (a) accounting principles for SEC registrants.
2. The Board unanimously agreed to leave footnote 1 unchanged. Mr. Trott supported his decision by noting that the objective of the project is to simply move the GAAP hierarchy from the auditing literature into the accounting literature, while making as few changes as possible. Since footnote 1 remains unchanged from SAS 69, this decision is consistent with that objective.

3. Mr. Moss then explained that eight of the respondents believed that the Rule 203 Exception, which allowed an auditor to give an unqualified opinion when a client departed from GAAP because not doing so would be misleading, should be carried forward from SAS 69. He then asked the Board for their comments.
4. The Board unanimously agreed with the staff that the Rule 203 Exception should not be included in the proposed Statement. Mr. Batavick noted that the Board thoroughly deliberated this issue at the November 24, 2004 meeting and decided that GAAP produces relevant and faithfully representational financial statements and consequently the Rule 203 Exception is unnecessary. Mr. Batavick also noted that none of the respondents were able to provide specific examples of when the Rule 203 Exception has been used in practice. He continued by stating that public entities that feel that their financial statements do not appropriately reflect their business have other avenues to make that known, such as in the MD&A.
5. Mr. Trott addressed concerns that removing the Rule 203 Exception is somehow taking away a right. He stated that Rule 203 Exception is specifically aimed at auditors not preparers. He further stated that accounting standards were created to promote communication between companies and the users of financial statements, and a paramount key to achieving communication that the users of financial statements understand is through accounting standards. Mr. Trott noted that companies already have an obligation to enhance the clarity of ambiguous information included in their financial statements through transparent disclosures. Ms. Seidman further commented on this point, stating that the purpose of accounting standards is to improve communication about similar or identical transactions by requiring uniform reporting. Mr. Herz stated that ideally something similar to the Rule 203 Exception should be allowed, however; the reality is that the Rule 203 Exception is seldom, if ever, used. Furthermore, Mr. Herz noted that the Rule 203 Exception is typically not permitted by the SEC.

6. Ms. Schipper questioned how the Board intended to reconcile its decision on the elimination of the Rule 203 Exception with its conclusion on Issue 1 (that is, that the goal of the project is not intended to change the guidance in SAS 69). She believed that the Board's intent is that there is a presumption that the guidance in SAS 69 should not be changed, however this presumption can be overcome if making a change improves financial reporting. The Board agreed with her assessment. Ms. Schipper added that Rule 203 Exception was added to the auditing literature before companies had other methods to communicate non-GAAP information such as in the MD&A and press releases.
7. Mr. Moss introduced the third issue stating that five respondents indicated that they believe that EITF consensuses should be elevated to category (a) in the GAAP hierarchy. Mr. Moss presented three alternatives for the Board to consider:
  - View A: EITF consensuses reached after the November 2005 meeting should be elevated to category (a)—all consensuses reached prior to that date should remain category (c).
  - View B: All EITF consensuses should be elevated to category (a) regardless of the date the consensus was reached.
  - View C: EITF consensuses should remain in category (c).
8. The Board unanimously supported the staff's recommendation that EITF consensuses should remain in category (c) of the GAAP hierarchy. Mr. Golden noted that a survey of current and former Task Force members was conducted in relation to a self-review of the EITF. The survey asked if the EITF should have the ability to amend category (a) GAAP. Mr. Golden stated that the responses overwhelmingly indicated that the Task Force should not be able to amend higher level literature and should remain an interpretive body. He indicated that a decision on this issue other than View C would be in direct conflict with the Task Force's position. Ms. Schipper stated her agreement with View C with the understanding that the Board is currently striving for simplicity and conceptual correctness that will be remedied by the codification project. Ms. Seidman

- indicated that the staff should ensure that the basis for conclusion of the proposed Statement includes a robust discussion on the Board's rationale for its decision on this issue.
9. Mr. Moss introduced the fourth issue stating that several respondents questioned the rationale for including FSPs and DIG Issues in category (a) since they have not all been subject to the same level of due process. Additionally, two respondents indicated that Technical Bulletins should be elevated to category (a) since they have been subjected to the same due process procedures as FSPs and DIG Issues. The Board unanimously decided not to reconsider its previous decisions regarding the classification of FSPs, DIG Issues, and Technical Bulletins within the GAAP hierarchy.
  10. Mr. Moss stated that four respondents commented that the meaning of paragraph 5 in the Exposure Draft was unclear. Respondents asked whether the paragraph should be interpreted to mean that an analogy to higher level GAAP literature should be considered before other accounting literature. Mr. Moss stated that the staff agreed that the meaning is unclear and recommended amending the wording as shown in the handout. The Board unanimously supported the staff's recommendation.
  11. Mr. Moss stated that the sixth issue deals with AICPA literature not cleared by the Board. Mr. Moss noted that a total of five respondents commented that the role of *AICPA Industry Audit and Accounting Guides* not cleared by the Board should be explicitly included in the hierarchy. The Board unanimously supported the staff's recommendation to explicitly include these pronouncements in category (d) of the hierarchy.
  12. Mr. Moss introduced the seventh issue, which dealt with the effective date of the proposed Statement. Mr. Moss noted that one of the underlying goals of the project has been to have the effective date coincide with the issuance of the AICPA's amended SAS 69 and similar guidance from the PCAOB. Mr. Moss stated that the AICPA is close to finalizing their document. However, based on

discussions with the PCAOB, their document will not be finalized by September 15, 2005, which was the original target effective date. The PCAOB stated that they are hopeful that their document will be issued by the end of the calendar year. The staff asked the Board whether it could coordinate the effective date with the AICPA and the PCAOB without having to come back to the Board for approval. Ms. Seidman expressed concern that there should be sufficient time in the unlikely event that the proposed Statement causes an entity to change its accounting. With this concern in mind, the Board agreed with the staff's request to determine the effective date based on the release dates of the AICPA and PCAOB's respective documents, however sufficient time should be provided for constituents to implement the proposed Statement.

13. The next issue discussed was transition provisions for the proposed Statement. Mr. Moss noted that while the proposed Statement was not intended to be a change to current practice, certain aspect of the proposed Statement may result in a change to current practice. The Board agreed with the staff that in the rare instance that application of the proposed Statement results in a change in accounting, enterprises should account for this as a change in accounting principle in accordance with Statement 154. Also, enterprises should clearly disclose the accounting principle that was used both before and after the application of the provisions of the proposed Statement. Additionally, disclosure should be made regarding the reason why applying the proposed Statement resulted in a change in accounting principle.

14. The final issue brought before the Board dealt with minor wording changes. The Board unanimously agreed with the staff's recommended changes as shown in the handout.

Follow-Up Items:

None

General Announcements:

None