



MINUTES OF MEETING

Financial Accounting Standards Advisory Council
December 6, 2007

The Advisory Council met at the offices of the Financial Accounting Standards Board in Norwalk, Connecticut.

Members Attending

Dennis Chookaszian, Chairman
David Bianco
Peter Bridgman

Richard D. Levy
John B. Morse, Jr.
Klaus D. Patzak

Curtis L. Buser
Michael P. Cangemi
Stephen J. Cosgrove

Samuel J. Ranzilla
Kevin B. Reilly
Steven A. Rogers

Leslie Culbertson
Timothy J. Curt
Leonard F. Griehs

David E. Runkle
Arleen R. Thomas
E. Anson Thrower

Charles L. Hall
Gregory J. Jonas
Joe Joseph
Marc E. Lackritz

Terry D. Warfield
Brent A. Woodford
William L. Yeates
Michael R. Young

Members Not Attending

James L. Brown
Richard H. Booth
Vincent P. Colman
Richard K. Dinkel

Nellie Liang
Krista M. McMasters
Mark W. Nelson

Others Attending

Financial Accounting Standards Board:

Robert H. Herz, Chairman
George J. Batavick
G. Michael Crooch

Thomas J. Linsmeier
Lawrence W. Smith
Donald M. Young

FASB/FASAC Staff:

Kenneth B. Bement, Assistant Project Manager
Suzanne Q. Bielstein, Director of Major Projects & Technical Activities
Ronald J. Bossio, Senior Project Manager
Russell G. Golden, Director of Technical Application & Implementation Activities
Hope A. Ham, Postgraduate Technical Assistant
Thomas Hoey, Director of the FASB Codification Project
Alicia A. Posta, Interim Executive Director, Financial Accounting Standards
Advisory Council
Kevin M. Stoklosa, Project Manager
Thomas J. Saleh, Vice President, Technology & Information Systems
Jeffrey T. Wilks, Practice Fellow

Others:

Robert F. Dacey, Chief Accountant, Governmental Accountability Office
James J. Leisenring, Member, International Accounting Standards Board
Jenifer Minke-Girard, Senior Associate Chief Accountant, Securities and
Exchange Commission
Greg Scates, Deputy Chief Auditor, Public Company Accounting Oversight Board

Introductory Remarks

1. Mr. Chookaszian called the meeting to order at 8:30 a.m. and welcomed the FASAC members and guests. He also introduced Alicia Posta as the new Interim Executive Director of FASAC.

Report of the FASB Chairman

2. Mr. Herz reported on the following matters:
 - a. The codification is expected to be released for public verification and access around January 15, 2008. The SEC staff is currently reviewing the SEC content and that portion may not be completely finished by the release date.
 - b. XBRL U.S. asked the FASB to review for GAAP compliance a sample of the XBRL taxonomies it developed. All of the reviews have been completed, and comments were submitted to XBRL U.S. The taxonomies were recently released to the public for exposure and verification.

- c. On the international front, the FASB had:
- Its semiannual meeting with the IASB in October to discuss joint projects.
 - Its semiannual meeting with representatives of the Accounting Standards Board of Japan to discuss global convergence of accounting standards.
 - Ongoing communication with the Accounting Regulatory Department in the Ministry of Finance of the People's Republic of China, which is responsible for accounting standards and auditing oversight in the country. The FASB is pleased to have Lin Zhu, who is a member of the Ministry's Accounting Regulatory Department, join the FASB staff on a secondment basis as an international fellow.
- d. The FASB and the FAF submitted a joint comment letter in response to the SEC concept release on allowing U.S. registrants to use IFRS and the proposing release to eliminate the requirement for certain foreign filers to reconcile to U.S. GAAP.
- e. Mr. Herz and Sir David Tweedie testified at a hearing of the U.S. Senate Committee on Banking, Housing, and Urban Affairs in October. The hearing included two panels of witnesses that expressed views on the issues around and how to proceed with convergence.
3. In response to Mr. Herz's comment on the status of XBRL, a FASAC member stated that several webcasts are available to learn more about the taxonomies and their structure. Those webcasts are meant to aid the public in its review during the exposure period.
4. In response to a question about his Senate testimony, Mr. Herz stated that he presented views that were consistent with the FAF-FASB's comment letter to the SEC. He spoke about his views on what needed to be done internationally and domestically for the U.S. to eventually implement IFRS. He conveyed the need for creation of a "blueprint" or rational and systematic plan to guide a smooth transition to IFRS.
5. A FASAC member commended Mr. Herz on his appearance on NBC's Squawk Box, and another FASAC member requested a brief summary. Mr. Herz responded that he was asked to explain FASB Statement No. 157, *Fair Value Measurements*. He said many large financial institutions had adopted Statement 157 early (at the beginning of the current fiscal year). Those institutions had to include the new Statement 157 fair value disclosures after the subprime fallout, bringing more transparency to their financial statements. Mr. Herz said he was also asked about unregulated derivatives, so he clarified that derivatives have been required to be marked to market since 1999.
6. A FASAC member raised two other matters that could have implications for the standard-setting process. First, the Treasury is working on the subprime

modification process, and there is some tension with certain aspects of FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. Second, there may be a need to clarify the applicability and scope of FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, to certain agreements, particularly judgment-sharing and loss-sharing agreements.

Report of the PCAOB

7. Mr. Scates reported on the following matters:
 - a. The PCAOB Standing Advisory Group met on October 18. One of the discussion topics was the potential audit implications of the SEC's recent proposing and concept releases on the use of IFRS.
 - b. Proposed staff guidance on auditing internal control over financial reporting in smaller public companies is available for comment until December 17, 2007.
 - c. The PCAOB adopted two amendments to Rule 4003, which addresses the minimum frequency of the PCAOB's inspections of registered public accounting firms. The amendments eliminate the requirement that the PCAOB regularly inspect each registered public accounting firm that plays a "substantial role" in audits but does not issue audit reports. The amendments also eliminate the requirement that the PCAOB inspect each registered public accounting firm that issues an audit report, even if the firm does not regularly issue audit reports.
 - d. The PCAOB issued for public comment proposed guidance on the implementation of Rule 4012. The proposed guidance identifies the factors relevant to "full reliance" by the PCAOB on the inspections systems of its non-U.S. counterparts that are sufficiently rigorous and independent to meet the level of protection for investors that is required by the Sarbanes-Oxley Act of 2002. There will be a 90-day comment period.

International Convergence and the Financial Reporting Environment

8. Mr. Chookaszian reported on the following convergence-related matters:
 - a. The FAF Trustees appointed new FASAC members that will begin their terms in 2008. The new member appointments increase the number of FASAC members that have considerable experience with IFRS from approximately 3-percent to 19-percent. Additionally, the terms of three of the four "permanent" seats are being converted to association seats that have the same terms as other members. The remaining "permanent" seat is being converted to a shorter-term rotational seat to add further flexibility in complementing the core FASAC membership with necessary expertise or views for specific topics or meetings.

- b. Mr. Chookaszian and Ms. Posta attended the IASB's Standards Advisory Council (SAC) meeting in November. At that meeting, SAC members considered the International Accounting Standards Committee Foundation (IASCF) Trustee's proposals about the governance of the organization in light of the November 6, 2007 IASCF press release titled "Trustees Announce Strategy to Enhance Governance - Report on Conclusions at Trustees Meeting." Mr. Chookaszian and Ms. Posta also participated in a meeting with members of the SAC and IASCF Trustees to discuss a proposed joint meeting process for the SAC and FASAC. Mr. Chookaszian observed that there were strong and very mixed views on the idea of such a meeting.
9. Mr. Chookaszian introduced the discussion on international convergence by providing an overview of the current state of the financial reporting environment. He then described one possible future state for discussion purposes. The possible future state included:
 - a. A single set of worldwide accounting principles based on IFRS.
 - b. More detailed "extensions" on a national level that are consistent with the principles. The volume of the "extensions" might vary between national jurisdictions and would depend on jurisdictional control of securities markets and financial reporting. Under this potential future state, the worldwide principles would become the "lowest common denominator" or a minimum level of financial reporting consistency.
 - c. A potential future organizational structure where countries across the world would fund the foundation that oversees and appoints members to the IASB.
 - d. The continuation of the existing organizational structure of the FASB (SEC funding, FAF, FASAC, etc.) that would establish U.S. "extensions" and provide technical support for IASB research and projects.
10. The views expressed by FASAC members on the potential future direction and organization of financial reporting may be summarized as follows:
 - a. While some thought the discussion was premature, most supported thinking long-term and brainstorming about possible structures that could or should emerge.
 - b. In general, there was concern that the idea of "extensions" seems to defeat the objective of a single set of global accounting standards.
 - c. There was also a recognition that the more you move to high level accounting principles, comparability will be reduced and the challenge will be finding a balance between a sufficient level of comparability while attempting to achieve simplicity.

- d. There should be one standard setter for one set of global standards, so the FASB cannot continue to exist in its current capacity. Instead, the FASB could act as a resource (or satellite office of the IASB) with 100 years of experience, collecting the views in the U.S. and presenting them to the IASB.
- e. To have global standards, there needs to be a global regulator. Most believe that a global regulator is impracticable and that “extensions” are inevitable. The goal should be to minimize and eventually eliminate any “extensions” through a constant worldwide convergence effort.

Report of the SEC

11. Ms. Minke-Girard reported on the following matters:

- a. Regarding IFRS, the Commission approved rule amendments to eliminate the requirement for foreign private issuers to reconcile to U.S. GAAP if their financial statements are prepared using IFRS as issued by the IASB. That final release should be available on the SEC’s web site soon. In addition, the SEC received approximately 80 comment letters on its concept release to potentially allow U.S. issuers to prepare financial statements in accordance with IFRS. There will be public roundtables on December 13 and 17 to discuss the concept release.
- b. In January, the SEC’s Advisory Committee on Improvements to Financial Reporting is expected to have a full committee meeting to continue its work of reducing unnecessary complexity in the U.S. financial reporting system and making information more useful and understandable for investors. Interim reports from the subcommittees are available on the SEC’s web site.
- c. In November, the SEC issued SAB 109 on written loan commitments. To make the staff’s views consistent with current authoritative accounting guidance, the SAB revises and rescinds portions of SAB 105.
- d. Also in November, the SEC announced that Wayne Carnall has been named the new Chief Accountant of the Division of Corporation Finance.

Revenue Recognition

- 12. Mr. Wilks introduced the discussion on revenue recognition. He explained that certain members of the FASB and IASB split into two groups to further develop the Customer Consideration and Measurement models. The goal is to have a discussion paper published by the second quarter of 2008.
- 13. Mr. Wilks requested that FASAC members provide feedback on whether the two models (a) are internally consistent, (b) are sufficiently described, and

(c) represent improvements over current practice. FASAC members divided into two groups to discuss those issues. Messrs. Bement and Wilks reported on the discussions that each group held.

14. The views expressed by FASAC members on the revenue recognition models may be summarized as follows:
 - a. There would be significant implementation issues that need to be further explored, particularly with the measurement model. Both models also have unit of account issues.
 - b. Many FASAC members were not convinced that the remeasurements required under the measurement model would actually be useful. Some called the measurement model “half-loaf” because it ignores inventory. In other words, if fair value is used for revenue purposes (NIFO or next in, first out), it causes an accounting mismatch when inventory is still measured at the lower of cost or market.
 - c. Some questioned whether one model would be operational for every industry and how the models might affect the comparability within an industry, as well as comparability across industries.
15. A FASAC member complimented the Board and staff on the significant amount of deep thought on key issues that is evident in the descriptions of the proposed models. He encouraged the Boards to continue their work and, in the meantime, consider a project on revenue recognition disclosures.

Statement 133 Projects

16. Mr. Stoklosa updated FASAC on projects related to FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. A final standard for derivative disclosures is expected to be issued in January 2008 and effective in November 2008. It will require a simplified tabular format (from seven tables down to two) that identifies derivatives and their location in the balance sheet and income statement.
17. The hedging project is using a fair value approach for both fair value and cash flow hedges. It will eliminate bifurcation by risk (except for one’s own debt on day one), critical terms matching, the shortcut method, and the notion of “highly” effective hedging. Instead, the hedge must be “reasonably” effective, which will not be defined in the standard.
18. In response to a question about the hedging dedesignation issue, Mr. Stoklosa responded that the Board will be discussing it on January 19, 2008.
19. A FASAC member voiced concern about the ability of private companies to satisfy the derivative disclosure requirements. However, the general consensus was that private companies should already have the majority, if not all, of the information they need to comply.

Recognition of Departing FASAC Members

20. Mr. Chookaszian observed that nine members were completing their service to the Council in 2007. He recognized the following FASAC members for their services: Mr. Richard H. Booth, Ms. Leslie Culbertson, Mr. Charles L. Hall, Mr. Joe Joseph, Mr. Marc E. Lackritz, Dr. Mark W. Nelson, Dr. Klaus D. Patzak, Mr. Kevin B. Reilly, and Mr. Michael R. Young, Esq.

Planning FASAC Input on FASB Agenda Setting

21. Mr. Chookaszian introduced the discussion on how FASAC can most effectively provide input for FASB agenda setting. Ms. Posta provided an overview of (a) the criteria that the FASB uses to decide whether to add a project to its agenda, (b) some of the external factors that have recently affected the Board's agenda, and (c) the FASB's and IASB's process for agenda requests and coordination of their future agendas.

22. Mr. Chookaszian requested that FASAC members provide feedback on both the best way to identify the most and least important topics and how to solicit input on areas that are broken. The views expressed by FASAC members may be summarized as follows:

- a. The annual FASAC survey is time-consuming but very beneficial, and its continuance is recommended. There was also support for expanding the survey to all official standing committees that meet with the FASB and some support for possibly expanding the survey to the subscribers of Action Alert.
- b. The answers to the survey should be more specific than broad suggestions for general topics, such as revenue recognition. For example, the survey could elicit feedback about specific aspects or pressing issues within the broad topics and the reasons that certain projects need to be on the agenda.
- c. FASAC members would like to consider other FASAC members' preliminary views and have an opportunity to discuss those preliminary views and rationale before finalizing the survey results. An extra meeting to discuss the preliminary results of the survey could be useful. Technology-based polling systems may be helpful to accumulate data and various methods could be used to formulate a consensus view from the preliminary views (if one is desirable).
- d. FASAC members requested input from the FASB about how it uses or is influenced by FASAC's input.
- e. In addition to the open-ended survey, the FASB could ask specific questions to FASAC members about whether they agree or disagree with the FASB's project priorities and approaches. In general, more

information about the FASB's long-term view of its agenda priorities and its constituents' requests would be helpful.

- f. Continuing the ongoing input from FASAC on emerging issues is an important supplement to the annual survey, given the ever-changing financial reporting environment.
 - g. Convergence should have a special place in agenda prioritization because it is causing the biggest and fastest change in accounting history. Therefore, the survey should address ways that the Board/US might address critical issues related to convergence, such as training preparers, auditors, and users about IFRS.
 - h. A major criterion for evaluating projects should be the relative costs and benefits. Given that most costs and benefits are hard to quantify, some time could be spent developing a better evaluation methodology.
23. A FASAC member mentioned the preliminary hypotheses of the Standard Setting Subcommittee of the SEC Advisory Committee on Improvements to Financial Reporting. One preliminary hypothesis is that a formal Agenda Committee be created to provide advice on the standard-setting agendas of the FASB, EITF, and SEC. The committee would include representation from the SEC, the FASB, users, preparers, and auditors. In response to a question about his views on the hypothesis of an agenda committee on standard-setting, Mr. Herz answered that the idea needs more development.

Potential Project on Intangible Assets

24. Mr. Bossio stated that in the FASB and IASB February 2006 Memorandum of Understanding, intangible assets was identified as one of three major topics for agenda consideration. He explained that staff from the Australian Accounting Standards Board (AASB) wrote an agenda proposal and recommended that the FASB and IASB add a comprehensive project to their active agendas as soon as resources are available to commit to such a project.
25. Mr. Bossio requested input from FASAC members on the need for and relative priority of a project on intangible assets. The views of FASAC members on whether the FASB should add a project on intangible assets to its agenda may be summarized as follows:
- a. A potential project on intangible assets is of lower priority than current projects.
 - b. If the resources are not available, other projects should not be delayed or replaced by a project on intangible assets.
 - c. Given the current state of limited resources, an intangible assets project should not be added to the agenda.

26. A FASAC member also noted that the FASB should avoid creating a standard that could weaken the current conceptual framework or require revisiting the new conceptual framework when it is issued.
27. Another FASAC member mentioned that the FASB could consider a short-term convergence project to write a standard that, in effect, would adopt IAS 38 as U.S. GAAP.

XBRL

28. Mr. Chookaszian introduced the discussion on XBRL. He explained that XBRL and the codification are separate in the current systems structure. One potential future structure is a single integrated system that would provide a single view of GAAP.
29. Mr. Saleh explained his view that the XBRL technology should exist to serve whatever purpose the standard setters and regulators decide is necessary. At the same time, XBRL is currently used in many sectors, so it is important to ensure that bias is not introduced into the standard-setting process via XBRL.
30. Mr. Chookaszian requested that FASAC members provide feedback on the potential future systems structure for XBRL and the codification. Members of FASAC expressed the following views:
 - a. Technologists should maintain the technology. Accountants should maintain the content through financial reporting requirements. Significant collaboration will be required for maintenance because XBRL is real-time and would be out of date shortly after it is released.
 - b. Integrating the codification and XBRL may slow the success of the codification.
 - c. XBRL is very powerful and will eventually allow people without the resources of a large company to do extensive analyses they could not previously perform.
 - d. XBRL U.S. created the taxonomies when the FAF had the opportunity to participate in their development. It is a standalone not-for-profit organization and should be consulted about possible future steps.
 - e. It is disconcerting that there are two completely different XBRL processes for U.S. GAAP and IFRS. They need to be reconciled and considered holistically.

ADJOURNMENT

31. Mr. Chookaszian thanked the FASB and FASAC members for their participation and adjourned the meeting at 3:00 p.m. FASAC members were invited to attend an optional education session on the codification presented by Mr. Hoey following the meeting.